

The Crime of '20

*The Unpardonable Sin
of Frenzied Finance*

By George W. Armstrong

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— *By* —
GEORGE W. ARMSTRONG

Dedication

I dedicate this volume to Richard H. Edmonds of Baltimore, Maryland, proprietor and editor of the Manufacturers Record, the Exponent of America. If we recover our freedom from the rule of the Money Lords; if money is made the servant of industry instead of its master; if the business of the country is permitted to function normally and free of bureaucratic and selfish control; if we are permitted to reap the full reward of our labor and sacrifice, the victory will be due largely to his vision, courage, incorruptibility, and sturdy Americanism. Blessings be to him, his kindred and his kind.

GEORGE W. ARMSTRONG.

Introduction

I trust that I may be pardoned a personal statement and explanation as an introduction. Having sold my Horseshoe Ranch in Oklahoma, I acquired, just prior to the declaration of war by the United States, a number of old plantations in Adams County, Mississippi, with the view of developing a mammoth stock farm and with the purpose also of retiring to them from my other activities.

When our country entered the war, the importance of food production and conservation was stressed. We were told that food would win the war. The President announced that an "Army of the Commissary" would be organized for the production of food, (which was not done). The conservation of food was organized under Mr. Hoover as Food Administrator, and food rationing was resorted to. Animated by a spirit of patriotism, the people of the country, almost without exception, cheerfully complied with all his rules and regulations. They did not ask the reason why; they did in good spirit what they were told to do.

A Typical Cattle Loss.

There was then a frightful drouth in the cattle breeding section of Texas, and many fine breeding herds on that account were being sent to slaughter. The government, through the Department of Agriculture, was conducting an active campaign to save them and to induce the owners and others to ship them to the southeastern states, which, however, was not very successful. Every informed cow man knew that cattle thrive and do well shipped from a warm to a colder climate, but that there is great risk in shipping them to a warmer climate, and they preferred to sell their drouth stricken cattle on the market than to move them.

There had never been a large movement of cattle from the West to the East or from the North to the South.

Fully appreciating and knowing the risk, I shipped

5,200 high bred tick free cows and heifers to Mississippi. I lost more than 3,000 of them. This was, in part, my "bit." I did not know, however, that I was taking the risk of tick fever. The United States Government had officially declared the State of Mississippi free of ticks, and had placed it above the quarantine line. It was not free, and as a result my cattle became infested and died like flies.

Those that are left are now worth approximately one-fourth of what they cost in 1917. I paid from \$75 to \$125 each for those I bought; they are now worth on the market from \$20 to \$30 each. But for the war and the food situation as it was represented to be. I would not have shipped more than 1,000 head, and therefore could have handled them better and avoided such a heavy percentage of loss.

I do not relate this "hard luck" story for the purpose of exciting sympathy but because I am typical of many other men engaged in the cattle business, and because it is the occasion of this book. One-half of the cattle raisers are broke. Most of them lost money during the entire period of the war. Those who responded generously to the government's appeal to increase food production,—those that have done the most—are hurt the worst. The man who has done nothing except collect his interest and clip his coupons, with occasional recreation in foreclosing a lien, is the one who sits in the easy chair. The picking is fine for the Shylock and the Skinflint.

The present administration recently proposed a measure to authorize the War Finance Corporation to lend 50 million dollars to cattlemen on their cattle and ranches, for the purpose of preventing the serious impairment of a basic industry. J. P. Morgan & Company then came forward with a proposition to organize a 50 million dollar cattle loan pool. In the meantime the slaughter goes on.

What Is the Matter?

It ought not to be necessary to resort to these extraordinary measures. There is something radically wrong with a financial system that will not furnish the

necessary credit through the usual channels, particularly in view of the fact that we now have 46 per cent of the gold of the world. Commerce and industry have been prostrated for a lack of credit, and even now, with values approaching pre-war levels, there is none to be had.

Either one of two things is true: our system is inadequate to meet the requirements of a virile, enterprising people, or it is badly administered. The trouble should be promptly corrected in either event, and it should be made impossible for it to occur again. If it is necessary to maintain high interest rates in order to conserve gold and credit; if money cannot be had for "capital and speculative purposes" with a plethora of gold, and with industry stagnant and depressed, then our system is fatally defective and it should be promptly remedied. If the Board is unlawfully using its power over currency and credit for the purpose of depressing values, and of correcting other economic evils to which it objects, then the situation is infinitely worse. Such power in any board is paternalistic, unconstitutional and intolerable to a free people, and should not be permitted to continue.

I have given the subject considerable thought and research during the past few months. I have been amazed by my discoveries. I want to relate them in a simple, straightforward way in the succeeding chapters. Above all things. I want to be fair and just and truthful, and to "tell the truth, the whole truth, and nothing but the truth" without fear or favor.

An Original Wilson Man.

It is a matter of very great regret to me that in doing so I must reflect on men whom I have always admired and have heretofore supported for office. I think I was the first man in Texas to publicly commend Mr. Wilson's candidacy for president. The convention of his friends held in Waco appointed me, together with Hon. T. W. Gregory and Hon. Cato Sells, to present his claim to the people of Texas.

I am one of the few "original Wilson" men who did not obtain or seek office. I remained his loyal support-

er and friend until the hour he signed the Adamson law. Even since then my feeling toward him has been more of pity than resentment. I supported Mr. McAdoo also, but not as actively and enthusiastically as I had President Wilson.

I have been a democrat all of the years of my life, and although my faith has been rudely shaken and sorely tried, I am still one. I hope that my party will change and that it will not be necessary for me to do so.

Either President Wilson and Mr. McAdoo were deceived by those who actually wrote the Federal Reserve law, or they have themselves deceived the people. Their keen intelligence and interest in the subject, their knowledge of it, the prolonged fight over different sections of the bill, which must have caused them to carefully consider every word of it, would almost preclude the possibility of their having been deceived. Their high character, the high position of honor and power and responsibility,—which had but recently been given them,—their every utterance on the subject, would seem to preclude the possibility of bad faith and deceitfulness.

Unwelcome, unpleasant, and incredible as the truth may be, or appear to be, one or the other conclusion is true. There is no escaping it. I shall endeavor to faithfully submit the evidence, and all that is known to me.

The Paramount Question.

The banking and currency question is the most important one before the American people. I have been deeply interested in the subject since the panic of 1907, when I was an active banker. I made numerous suggestions to President Wilson, Secretary McAdoo, Senator Owen, and Mr. Glass when the Federal Reserve law was being considered by congress.

I am writing this book in the hope that it may contribute to a better understanding of this important question. The most of the contributions on the subject are inspired propaganda, misleading and untrue, emanating from New York and Washington. We must have an adequate banking and currency system, free of selfish or political control, for without it there can be no con-

fidence in enterprise, no stability of value, no assurance of prosperity. Quoting from Sir Robert Peel in his opening statement with reference to the English bank act of 1844:

"There is no contract, public or private, no engagement, national or individual, which is unaffected by it. The enterprises of commerce, the profits of trade, the arrangements made in all domestic relations of society, the wages or labor, pecuniary transactions of the highest amount and of the lowest * * * the command which the coin of the smallest denomination has over the necessities of life, are all affected by the decision to which we may come on that great question which I am about to submit to the consideration of the committee."

We have had seventeen panics, with their succeeding business depressions, since 1814, an average of one every six and a fraction years. There is no estimating the wreck and ruin they have wrought, and what our present state of development and standard of civilization would be except for them. It is safe to say they have cost more in treasure and more in human misery than have all our wars. Two of them have been due to war and fifteen to defective banking and currency systems.

A Call for Criticism.

This book has been written at some personal sacrifice, in the hope that it may contribute something to the solution of the important issues that now confront us and press for attention. To be of real value it must be truthful in statement of fact, sound in argument, and just in the judgment of men's deeds and motives. If there are any errors either in the statements of fact, arguments or conclusions, I earnestly desire to correct them, and to make every possible amend in future editions.

Complimentary copies will be sent to President Harding, ex-Presidents Wilson and Taft, Governor W. P. G. Harding, Messrs. W. J. Bryan, W. G. McAdoo, John Skelton Williams, J. S. Wannamaker, Henry Ford, Jno. M. Parker, J. Thos. Heflin, Paul M. Warburg, Bernard M. Baruch, J. B. Forgan, A. Barton Hepburn, Samuel Untermyer, D. R. Crissinger, D. F. Houston, Samuel

Gompers, Geo. E. Roberts, R. L. Henry, Carter Glass, R. L. Ball, T. Cushing Daniels, S. P. Panton, Professors Kemmerer and Seeligman, and Senators McCormick and Gronna.

I specially request each and all of them to call attention to any error that has been made in the reference to himself, and to favor by a criticism of the book and an expression of opinion as to the merits or demerits of the remedies proposed.

In view of the momentous importance of the subject, I trust that I may with propriety also request for publication in future editions the reviews and criticisms of Secretary A. W. Mellon, Secretary Herbert Hoover, Secretary Henry Wallace, Ex-Secretary E. T. Meredith, Messrs. Richard H. Edmonds, Theodore H. Price, J. S. Cullinan, J. W. Bailey, R. L. Owen, W. H. (Coin) Harvey, H. L. Rummel, Moreton Frewen, Edward C. Stokes, Stuyvesant Fish, Joel Hurt, Langbourne M. Williams, Arthur Kitson, Thos. E. Watson, P. H. Whaley, W. C. Durant, F. A. Vanderlip and Geo. M. Reynolds.

I do not expect this book to have the recognition of President Harding, and ex-Presidents Taft and Wilson. I am sending it to President Harding to call his attention to an official record that he can not afford to either adopt or ignore. While not responsible for the appointment of W. P. G. Harding and the hold over members of the Board in the first instance, the responsibility of continuing them in office is his. President Wilson may have been deceived as to their real character, but President Harding can not now be. Sufficient reason for sending copies to Messrs. Taft and Wilson is the fact that their official records have been freely discussed in the succeeding pages.

Who Was the Real Author ?

Senators R. L. Owen and Carter Glass and Mr. W. G. McAdoo were thought to be the real authors of the law. The American people are interested to know whether this is in fact true, or whether its real authorship was in "New York and not in Washington"; whether its real authors were in fact Samuel Untermyer and Paul Warburg, and not themselves. They are interest-

ed to know also whether the law is in substance and effect the Aldrich Bill, and if not, in what respect it is different. Is the interpretation placed upon it in the succeeding pages correct? If not, wherein is it wrong? The views of Messrs. Samuel Untermeyer and Paul Warburg upon this question are also requested.

I particularly request an expression from David F. Houston and W. P. G. Harding upon the following matters: Have the records of the May conference of bankers and of the September meeting of the Council been correctly quoted and fairly interpreted? If not, please point out the error. Did the record speak the truth, did it state the true objects and all of the objects that they sought to accomplish by their program of credit control? How much money was then and is now in actual circulation, and what in their judgment should be the per capita circulation?

An expression as to the correctness of these records from Messrs. A. Barton Hepburn and J. B. Forgan is also requested. It is sometimes easier to ignore embarrassing questions than to answer them. I trust that none of these gentlemen will adopt that course. It is **their official record** that is under discussion, and the public is entitled to know the truth about it. There has been so much representation and denial that a full, clear, frank statement from them is in order. So far as I am personally concerned, apart from my desire to be just and fair, it is a matter of indifference. I have presented what I believe to be a correct and truthful statement and interpretation of their records. It will undoubtedly stand as such unless they themselves correct it.

I request the opinions of Senator Owen, ex-Senator Bailey, ex-Congressman Henry, and Mr. Samuel Untermeyer as to the soundness of my interpretation of Art. 1, Sec. 8, Sub-Div. 5, of the constitution; and of Comptroller Crissinger and ex-Comptroller Williams as to the actual amount of legal tender money in circulation. A collation of the views of these distinguished men will be of great advantage to us all in reaching conclusions regarding these important problems. The final chapter of this book will be written when the evidence is all in.

The Producers' Side of the Issue.

There is urgent need at this time for sound, conscientious, political thought and action. Every work on political economy and money, from the great original book of Adam Smith's *Wealth of Nations* to this date, has been written by consumers who were interested in a high priced dollar and in cheap commodities. No book has ever been written on either of these subjects by a producer of wealth. Practically all of them are by college professors. They have argued again and again the consumers' side of the question, some of them ably and honestly, and some of them weakly and dishonestly. The pity of it is that much of this false philosophy has been taught in our universities to our young men, and much of it is now accepted as orthodoxy. Perhaps my views may also be colored by self interest, but even so, it is time that the other side of the question be at least stated.

In the next volume I shall only briefly discuss the letters that may be written by those whose opinions and criticisms are sought. I shall more fully discuss usury and money, and particularly international money, including the Vanderlip and other proposed systems. I shall briefly review the ablest of the modern authorities, viz: Professor Fisher's "Why the Dollar is Shrinking" and Professor Kemmerer's "High Prices and Deflation."

This work of Professor Kemmerer's is the book quoted by the Federal Advisory Council at their love feast of Sept. 20, 1920. It, in fact, pointed out the method and the way of deflation which the Board adopted. I shall devote one chapter to the eloquent and masterly sophistry of Henry George's "Progress and Poverty."

I do not pretend great depth of learning upon these subjects. I haven't the power of inductive and deductive reasoning of a Mill or a Ricardo, nor the wealth of information of an Adam Smith, nor the privilege of quiet research and reflection that one should have who endeavors to discuss these momentous questions. The producer, by character and occupation, is not a theorist or a writer of books, which is perhaps the reason that the dogmas of the doctrinaires have never been challenged.

The problems are here upon us demanding immediate

solution; the great banks of the cities are hiring college professors and financial experts to impress their views upon us, the vast majority of the magazines and newspapers of the country are aiding them. I shall, therefore, write the concluding volume as hurriedly as possible, hoping to be able at a later period in life to make a more exhaustive investigation of the subject, and perhaps to revise and add to these volumes. I am writing now of history that is in the making, and of scenes and conditions that are constantly changing.

At the expense of leaving out important evidence of the "Crime of '20," and of a very meager discussion of the important problems that the abuse of our credit and currency system has forced upon us and the world, I have endeavored to write a short book in order to submit the result of my investigation to the American people, the President and Congress, at the earliest possible moment and in order that the book may be generally read. To be popular, books, like sermons, should be short. There should be a more elaborate discussion of remedies, of the principles of political economy, of national wealth, and of prosperity as applied to existing conditions, than are contained in this volume. I shall, therefore, write a second volume of the "Crime of '20" as soon as my other responsibilities will permit.

I wish to acknowledge the generous encouragement and assistance given me by my friend, Hon. E. G. Senter, Editor of Dixie. The appearance of the book and much of such merit as it may have are due to his work and criticism. In fact, the work itself was undertaken at his suggestion. It was originally intended that it should be a fifty or sixty page pamphlet and that it should be published by Dixie.

CHAPTER ONE

The Currency System Before the Creation of the Federal Reserve

The panic of 1907 resulted from a lack of currency and not of credit. The shortage of currency automatically contracted credit. The 1907 panic differs from the present one in that there is now no lack of currency, only a lack of credit. Both are similar in the fact that they were manufactured panics, brought upon the country to accomplish ulterior ends. This is true also of the panic of 1873. The 1873 panic is also similar to the present one in the fact that it resulted from governmental or political action, taken in the midst of prosperity, without notice or previous discussion. The government then demonetized silver, which practically reduced the volume of money one half. The value of all kinds of property and of wages were reduced accordingly.

There is evidence that Ernest Seyd procured the demonetization of silver through corruption, and at the instance of a group of foreign international bankers. This has been properly called the "Crime of '73."

Soon thereafter the annual production of gold increased from about 100 million to about 400 million, which correspondingly increased the volume of money and the prices of wages and property. The "free silver craze" therefore died out, and we became reconciled to the gold standard.

Conditions in 1907.

Due to this increased gold production, the country was in a state of healthy prosperity at the time of the panic of 1907. Labor was well employed and contented; the farmer enjoyed a satisfactory market for his products; every class of business and every section of the country were enjoying a period of prosperity which had been growing and increasing in volume for about three years. The situation is well described in a speech by

Senator Aldrich, from which I quote. Senator Aldrich was regarded by bankers as being the best informed man in the United States on the subject of banking and currency:

"The immediate occasion which led to the appointment of the monetary commission was the crisis of 1907, whose disastrous results can never be measured, and whose destructive influences were felt throughout the world. The shrinkage in the value of property and securities which then took place, together with losses arising from a paralysis or suspension of business, amounted to thousands of millions of dollars. The country escaped by the narrowest possible margin from a total collapse of all credit and a wholesale destruction of all values.

"To the great majority of the people of the country the blow came without a warning. Most of our banking institutions were in excellent condition, business of every kind was prosperous, labor was fully employed at satisfactory wages, industries of every kind were flourishing. Our people were full of hope and confidence for the future. Suddenly the banks of the country suspended payment and acknowledged their inability to meet their current obligations on demand. The results of this suspension were felt at once; it became impossible in many cases to secure funds or credit to move crops or to carry on ordinary business operations; a complete disruption of domestic exchanges took place; disorganization and financial embarrassment affected seriously every industry; thousands of men were thrown out of employment, and the wages of the employed were reduced. The men engaged in legitimate business and the management of industrial enterprises and the wage-earners throughout the country, who were in no sense responsible for the crisis, were the greatest sufferers.

"As an indication of its effect upon the business of the country I will refer to the falling off in the production of pig iron, it being understood by economists and students that in a certain sense the production of iron and steel is a barometer of general business conditions. The production of pig iron in 1907 was, in round numbers, 25,000,000 tons, and in 1908 it was 15,-

000,000 tons, or a reduction of 40 per cent." (Note: The production of pig iron is now less than 25 per cent of normal. At no time in modern history has the period of decline been so long or the fall in production so drastic.)

"Possibly a corresponding reduction did not occur in all industries and in all kinds of business, but the blight which this crisis created was felt in nearly every household. The farmer, with his crops unsold and for the time unsalable, the men employed in all industries, alike felt its injurious effects.

"If we should undertake to measure in dollars and cents the effects of these recurring periods of depression and of crisis, it would be an extremely difficult task. It is evident, however, that while our country has natural advantages greater than those of any other, its normal growth and development have been greatly retarded by this periodical destruction of credit and confidence.

"I believe that no one can carefully study the experience of the other great commercial nations without being convinced that disastrous results of recurring financial crisis have been successfully prevented by a proper organization of capital, and by the adoption of wise methods of banking and of currency.

"Of course, until human nature is changed, it will not be possible to prevent, by legislation or otherwise, periods of overspeculation, with undue inflation of values and over extension of credit. When we consider the characteristics of the American people, whose unrivaled energy and enterprise are not always confined by the limits of prudence, it is certain that we in the United States shall always have periods of speculative inflation, with the evil results which are sure to follow. Other countries, however, have been able to prevent disastrous panics and to confine the evil results of overspeculation and inflation in the main to the people directly interested—that is, to the people who have violated the fundamental laws of business and to their financial backers and supporters.

"There has been no general suspension of banking institutions and no general destruction of credit in any

of the leading countries of Europe for more than a century. There have been periods when great financial institutions or great merchants have failed and great losses have resulted, but at no time has there been any general suspension." (Senate Doc. No. 406, Pages 3 to 6.)

Panic of 1907.

In the early fall of 1907 the Heinze and Morse banks of New York City failed. Mr. Heinze had been a thorn in the side of the copper trust, and both he and Mr. Morse had been outlawed by Wall Street. There was a run on several of the New York banks. Under the old system the New York banks held the legal reserves of all the banks of the country. They announced that they would not honor the demands of their bank depositors for currency, although these bank deposits were trust funds, a part of which they were required by law to keep in their vaults in order to meet the requirements for currency of the banks whose reserves they held. But they continued to pay currency out to their **other depositors to be hoarded by them**. Mr. Roosevelt was then President and he was also in disfavor with the financial interests. Through his secretary, Mr. Geo. B. Cortelyou, who subsequently became associated with J. P. Morgan & Co., he caused the U. S. Treasury to deposit 25 million dollars with that firm, for the announced purpose of supplying the banks of the country with the necessary credit for commercial and crop moving purposes. None of this money ever got beyond the confines of Wall Street.

Effects of 1907.

The refusal of the New York banks to ship currency to their correspondents made it necessary for all the banks to conserve their currency,—“put the lid on”—as it was called. Where there were as many as three or more banks in a city, clearing house associations were organized or revived for the purpose of issuing clearing house certificates, which were used principally in settling bank balances, but in many instances as currency itself. The banks of each city fixed their own terms and conditions of issuing clearing house certifi-

cates and the uses for which they were to be employed, and also the terms and conditions under which currency was to be paid out to their depositors.

Generally speaking, these clearing house certificates became the obligations of all the banks of the city in which they were located. Each bank was allowed a credit with the clearing house association equal to its capital and surplus upon deposit by it of approved customers notes equal to double the amount of the credit allowed it. As a rule, the limit of currency allowed a depositor was \$50 per day, but in many instances \$25, and in some even less than that. Some of the clearing house associations provided that depositors might draw \$50 the first day, \$25 the second, and finally none at all.

This necessarily caused many people to hide out and hoard as much currency as possible. It also caused a run on many of the banks, which was speedily checked by this limitation of currency payments. This acute situation did not continue more than 30 days; in fact the panic itself was over in less than 90 days, but there was a much longer period of unsettlement and stagnation of industry and of enterprise.

Monetary Commission.

The effect of the suspension of currency payment was to practically suspend all markets and marketing. Values took a sudden drop. Credit was immediately shut off, and every bank proceeded to enforce collections. The wheels of industry instantly stopped. Bankruptcy and failures began, and a period of hard times set in. In response to the demand for relief, congress enacted the Aldrich-Vreeland Emergency financial measure which legalized and enlarged the emergency clearing house associations that had been adopted by the banks of the country. A monetary commission was also created by an act of congress for the purpose of studying the financial systems of the world, and recommending to congress a measure that would prevent a recurrence of panics, of which Senator Aldrich was made chairman. This commission visited various European countries, and after about two years of investigation reported a bill to

congress, the essential features of which are contained in the present Federal Reserve law.

Bank Notes.

Under the system that then prevailed, our principal currency consisted of gold and silver certificates and national bank notes. The gold and silver certificates were secured by deposits of gold and silver bullion to the extent of the value of the notes issued, which were held in trust by the government as security for its certificates or notes. The national bank notes consisted only of the obligations of the banks issuing them, secured by government bonds. The banks were required to buy government bonds carrying the circulating privilege, which were deposited with the United States Treasury as security for their notes, and were permitted to issue their notes to the extent of 95 per cent of the face value of these bonds. In case of the insolvency or liquidation of the bank, these government bonds were sold on the market by the government, and the proceeds were used to retire the notes. **These notes were not secured by gold.**

The only security for them was first, the solvency of the bank issuing them; and second, the **market** for government bonds. The government itself was not required to pay these bonds until their maturity, and therefore the bank notes were not the obligations of the government. The government had no obligation or duty in respect to these notes except to hold the bonds, furnish the blanks for execution by the bank officers, sell the bonds in case it became necessary, and use the proceeds to retire the notes. The bank notes, however, always maintained a parity of value with gold. There was never a loss of a dollar on account of this currency. **It was good.** The objection to it consisted in the fact that it was not elastic, and not sufficient in volume to provide for the increasing demands of commerce. This objection applied likewise to the gold and silver certificates. The volume of the gold and silver certificates in use depended upon the accident of the amount of gold and silver mined or imported into this country, and acquired by the United States Government, and the

national bank notes depended upon the accident of the amount of bonds bought by National Banks and the currency issued by them.

Elastic Currency.

The country banks and the country desired an elastic system of both currency and credit that would automatically expand and contract with the demand, and that would be free from the possibility of selfish control and manipulation. The country bankers (as distinguished from the Wall Street and allied bankers) proposed a currency based upon commercial paper as being the best method of obtaining this end. There were differences among them as to the details of such a measure, but in general they advocated a currency to be issued by the United States Government and to be secured, 1st, by approved commercial paper defined as two name paper given for a product in process of being marketed. 2nd, by the endorsement of the bank discounting this paper with the Federal Reserve Bank. 3rd, by the endorsement of the Federal Reserve Bank.

Obviously, this would be a better note than the national bank notes which then constituted large items of our currency. Obviously it would be elastic because it was to be issued upon notes given for the purpose of handling the commerce of the country, and was subject to retirement as these notes were paid. In the discussion among the bankers of this subject no one argued that such currency would not be of equal value with gold, and few who favored this system of currency argued that it should be secured by a deposit of gold to the extent of any percentage. The notes then used had thoroughly proven to the bankers that a gold reserve for them was not needed.

Bank Reserve Under Old System.

Our credit structure then rested, in its last analysis, upon the Central Reserve Banks of New York City. New York was the financial center. While seven other of the larger cities were Central Reserve bank cities, they as well as the other banks of the country carried a part of their reserves in the New York banks. The law did

not require that the actual money be set aside in the vaults of the New York Central Reserve banks for the payment of these reserves. The depositing bank was only given credit on the books of the Central Reserve Bank, but the law allowed this credit as a part of its legal reserve, and as actual money in hand.

The panic of 1907 demonstrated that this was a fiction, and that these reserves were of no value when there was a scramble for currency. This situation they proposed to meet by the establishment of **Reserve** banks that would carry nothing except the **reserves** of member banks, that had the power to issue currency, that owed no duty to anyone except member banks, and that did not engage in any character of speculation or long time financing.

CHAPTER TWO

Declarations of the Parties and of Woodrow Wilson Touching Currency Reform

The views and aspirations of the people were expressed in the platforms of the three political parties in 1912. The Republican platform declared:

"The Republican party has always stood for a sound currency and for safe banking methods. It is responsible for the resumption of specie payments, and for the establishment of the gold standard. It is committed to the progressive development of our banking and currency systems. Our banking arrangements today need further revision to meet the requirements of currency conditions. We need measures which will prevent the recurrence of money panics and financial disturbances and which will promote the prosperity of business and the welfare of labor by producing constant employment. We need better currency facilities for the movement of crops in the West and South. We need banking arrangements under American auspices for the encouragement and better conduct of our foreign trade. In attaining these ends, the independence of individual banks, whether organized under National or State charters, must be carefully protected, and our banking and currency system must be safeguarded from any possibility of domination by sectional, financial or political interests."

The Democratic platform declared:

"We oppose the so-called Aldrich bill, or the establishment of a Central bank, and we believe the people of the country will be largely freed from panics and consequent unemployment and business depression by such a systematic revision of our banking laws as will render temporary relief in localities where such relief is needed, with protection from control or domination by what is known

as the Money Trust. Banks exist for the accommodation of the public and not for the control of business. All legislation on the subject of banking and currency should have for its purpose the securing of these accommodations on terms of absolute security to the public and of complete protection from the misuse of the power that wealth gives to those who possess it."

The Progressive platform declared:

"We believe that there exists imperative need for prompt legislation for the improvement of our national currency system. We believe the present method of issuing notes through private agencies is harmful and unscientific. The issue of currency is fundamentally a government function, and the system should have as basic principles soundness and elasticity. The control should be lodged with the government and should be protected from domination or manipulation by Wall Street or any special interests. We are opposed to the so-called Aldrich currency measure because its provisions would place our currency and credit system in private hands, not subject to effective public control."

United Against Wall Street Control.

All three of the political parties recognized in their platforms that there was then need for a reformation of the banking and currency system. All of them recognized that the old system was not sufficiently elastic, and that it could not provide a sufficient volume of currency and credit for the demands of agriculture and commerce. All of them alike impliedly recognized that a banking system could be devised that would prevent panics. All of them were alike opposed to a system that could be dominated by "sectional, financial or political interests" (Republican language); or by the "money trust" (Democratic language); or by "Wall Street or any special interests" (Progressive language). The all important subject of control was emphasized in all of the platforms.

Aldrich Bill a Republican Measure.

The character of the bill was not clearly defined in

the platform of any of the parties. Both the Democratic and Progressive parties declared themselves as opposed to the "so-called Aldrich Bill," which thereby became an issue in the campaign. The Republican party did not in express language declare for or adopt this bill, but it did so by implication. At least its banking and currency plank was given that interpretation. The Aldrich bill was introduced during the Republican administration of President Taft, and presumably with the approval of his administration. Senator Aldrich himself and a majority of the Monetary Commission were Republicans. It had the support of the New York bankers, "Wall Street and the Money Trust," which were popularly thought to have a dominating influence with the Taft administration.

The Aldrich Bill.

The "so-called Aldrich Bill" called for the establishment of a central bank at Washington styled the National Reserve Association, with 15 branches to serve the different sections of the country. It provided that this central bank was to be governed by a board of 46 directors for the National Reserve Association, and 12 directors for each of the branches. Of the 46 directors of the National Reserve Association it was expressly required that 15 should not be bankers. All six members of the cabinet were to be ex-officio directors. Section 41 of this bill provided that "all demand liabilities, including deposits and circulating notes of the National Reserve Association, shall be covered to the extent of 50 per cent by a reserve of gold or other lawful money of the United States."

It is to be noted that Senator Aldrich in his report to the Monetary Commission recommended a smaller gold reserve requirement, and therefore a more liberal basis for currency and credit, than the Monetary Commission recommended to congress—indeed, more liberal than the present law. His recommendation was that "all note issues of the reserve association be covered to the extent of at least one-third by gold or other lawful money and the remaining portion by United States bonds or commercial paper."

The Vote Against Aldrich Bill.

The so-called "Aldrich bill" stood boldly and openly for a central bank, for a banker controlled system, and for a gold reserve for both notes and bank deposits. The people voted upon these questions in the election of 1912. Mr. Taft, who was then serving his first term as President, and was the nominee of his party for re-election, received 3,485,082 votes out of a total of 15,034,800. He carried only two small states, Vermont and Utah, with a total of 8 electoral votes. While this was not the sole issue in that campaign, it was the predominating one. It was a protest of the people of the United States against the control of Wall Street and of the Money Trust in finance, politics and industry. The people by their votes spoke clearly and distinctly against the Aldrich plan, against Wall Street and banker control of the system, and against gold secured notes and deposits, for the issue was sharply and clearly drawn.

Binding Obligation of Party Platforms.

Too much emphasis cannot be placed on the platforms of the political parties. They are the only method under our system by which the people can give expression to their views on governmental policies that affect them. They are prepared by the leaders of the party, discussed in the campaign speeches and through the press, and finally voted on at the polls. The questions are then settled and are not subject to review, or should not be, unless voted upon again and the verdict changed. They are a solemn mandate from the people to their officers elected upon them.

More importance should therefore be attached to the platform expressions of the political parties regarding this entire question than to the reasons for or against a given plan or theory, for these reasons have been discussed before the people, considered by them, and judgment passed upon them. Our government is the people's government, our country the people's country, our banks the people's banks. They are entitled to the system of banks, the system of control, and the system of currency that they want. No one has the right to impose any other or

different system upon them, even though it may be thought better. Mr. Bryan has stigmatized the over-ruling of the people's verdict by their servants as "embezzlement of power."

Financial Question Predominant.

Mr. Wilson in announcing his candidacy for the office of president in 1911 charged that the panic of 1907 was manipulated by certain large Wall Street interests to accomplish selfish ends. The predominating note of all of his campaign speeches was the reform of our banking and currency system in such way as would prevent the possibility of selfish manipulation, and afford industry and commerce an adequate supply of currency and credit. All other candidates for the Democratic nomination were silent on the subject. I do not believe that Mr. Wilson would have carried Texas, which meant that he would not have received the nomination for the presidency, except for his position on this subject.

The position of the people toward Wall Street and the money question was very well stated by Mr. Wilson in one of his campaign speeches in 1912, after he became the Democratic nominee for the presidency:

"It is the mere truth to say that the financial resources of the country are not at the command of those who do not submit to the direction and domination of small groups of capitalists who wish to keep the economic development of the country under their own eye and guidance. The great monopoly in this country is the monopoly of big credits. So long as that exists, our old variety of freedom and individual energy of development are out of the question. A great industrial nation is controlled by its system of credit. Our system of credit is privately concentrated. The growth of the nation, therefore, and all our activities are in the hands of a few men. An invisible empire has been set up above the forms of Democracy. We have been dreading all along the time when the combined power of high finance would be greater than the power of the government. Have we come to the time when

the President of the United States, or any man who wishes to be President, must doff his cap in the presence of this high finance, and say, "You are our inevitable master, but we will see how we can make the best of it." We have restricted credit and control of development and we have come to be one of the worst ruled, one of the most completely controlled and dominated governments, in the world. No longer a government of free opinion—no longer a government by conviction and the vote of the majority, but a government by the opinion and duress of a small group of dominant men."

Glass Bill Introduced.

In accordance with Mr. Wilson's wishes and campaign promises, a bill was introduced in the House of Representatives by Mr. Carter Glass, Chairman of the Banking and Currency Committee, on June 26, 1913, following the President's inauguration in March. This measure was reported out of the Democratic caucus with its endorsement on Aug. 29, 1913. This original bill will be later discussed in connection with the present law. The bankers, big and little, all over the country, arrayed themselves in opposition to this bill. The New York banks were especially active, and their influence then dominated all of the banks even more than now. At all of the bankers meetings and caucuses and conventions held while this measure was pending, every expression from them was antagonistic. The larger New York banks threatened to denationalize if the bill became a law.

Federal Reserve Law.

The present law was enacted in December, 1913. It was heralded by the press as a great act of constructive legislation. It was represented as being an elastic measure that would meet the demands of commerce and industry for both credit and currency, that would expand automatically with the expansion of commerce, and contract automatically with its contraction. There was praise from every one, including the bankers. Everybody accepted it as being what it purported to be, and no one imagined for a moment that it could be itself em-

ployed for the purpose of contracting credit, reducing values and wages, and precipitating a panic. The national Democratic platforms of 1916 and 1920 pointed to it as the greatest achievement of President Wilson's administration.

President Wilson said of the bill in a letter to Senator Oscar Underwood, Oct. 19, 1914:

"In like manner by the currency bill we have created a democracy of credit such as has never existed in this country before. For a generation or more we have known and admitted that we had the worst banking and currency system in the world, because the volume of our currency was wholly inelastic; that is, because there was more than enough at certain seasons to meet the demands of commerce and credit, and at other times far too little; that we could not lessen the volume when we needed less nor increase it when we needed more. Everybody talked about the absurd system and its quite unnecessary embarrassments, sure to produce periodic panics, and everybody said that it ought to be changed, and changed very radically; but nobody took effective steps to change it until the present congress addressed itself to the task with genuine resolution and an intelligence which expressed itself in definite action. And now the thing is done.

"Let the bankers explain the technical features of the new system. Suffice it here to say that it provides a currency which expands as it is needed, and contracts when it is not needed; a currency which comes into existence in response to the call of every man who can show a going business, and a concrete basis for extending credit to him, however obscure or prominent he may be, however big or little his business transactions.

"More than that, the power to direct this system of credits is put into the hands of a public board of disinterested officers of the government itself, who can make no money out of anything they do in connection with it. No group of bankers anywhere can get control; no one part of the country can con-

centrate the advantages and conveniences of the system upon itself for its own selfish advantage. The board can oblige the banks of one region to go to the assistance of the banks of another. The whole resources of the country are mobilized, to be employed where they are most needed. I think we are justified in speaking of this as a democracy of credit. Credit is at the disposal of every man who can show energy and assets. Each region of the country is set to study its own needs and opportunities and the whole country stands by to assist. It is self-government as well as democracy." (See Cong. Rec. Vol. 51, Page 18512) ?

This is exactly the kind of system we thought we had, but it is different, very, very different.

CHAPTER THREE

Bankers Win Control of the Financial System—Root, Tree and Branch

The two essential provisions of any banking and currency measure are those relating first, to management and control; and second, to currency and credit. Of these two the first is by far the most important. With a control that is representative of the "geographical, commercial and industrial" interests of the country, and that really desires to serve its needs, any system, no matter how defective, can be made useful; but with control in the hands of a selfish class or interest, any system, no matter how perfect, will become oppressive.

The platforms of all the political parties emphasized these questions. Although the Progressive and the Democratic parties, especially the Democratic party, were a bit obscure in their declarations regarding the currency and credit question, they were clear and emphatic on the subject of management and control. They were opposed to the "so-called Aldrich bank," and to the control of "Wall Street or any special interest." Even the Republican party expressed opposition to control by any "financial interests," but it could not escape responsibility for the Aldrich bill then pending in congress which provided for a central bank with banker control.

Wall Street is not a myth. Literally, it is only a short, narrow, crooked street in the financial district of New York City, with a graveyard at one end and a river at the other, inhabited by many narrow, crooked men. But the name, as now used, represents the sordid, usurious, grafting, mighty, money power that was then, and is now, in control of our banking and currency system, and that is corrupting and undermining our commercial and political life. The name is odious because its practices are evil. It represents the power and greed of the dollar.

Glass Bill Regarding Control Opposed.

The Glass bill which was introduced Aug. 29, 1913, and which had the support of the Democratic caucus, provided for a board of seven directors, including the Secretary of the Treasury and Agriculture, and the Comptroller of the Currency, and four to be appointed by the President, with the advice and consent of the senate. "In selecting the four appointive members of the Federal Reserve Board, the President shall have due regard to a fair representation of the different geographical divisions of the country." "Of the members thus appointed by the President, not more than two shall be of the same political party, and at least one shall be a person experienced in banking." (See Sec. 11, H. R. 7837).

Under this original bill, as well as the present law, it was possible for all of the members of the Board to be bankers, for bankers could be appointed to represent the divisions of the country as well as any one else. The law only provided that "at least one" should be a banker, which implied that others might be. But there was no certainty of but three bankers out of the seven, viz.: the Secretary of the Treasury, and the Comptroller of the Currency, and the one provided for.

This was not satisfactory to the bankers, particularly the Wall Street group. They wanted **four** of the seven members of the Board, which carried control of the system. They bitterly opposed the law on the ground that they were required to furnish the capital for the Reserve Banks and did not have proper representation. As a result of the contest the present law was enacted which provides for a directorate of seven, with the Secretary of the Treasury and Comptroller of the Currency as ex-officio directors, and four members to be appointed by the President to represent the "**divisions**" of the country, of whom "**at least two** shall be persons experienced in banking or finance." A banker was substituted for the Secretary of Agriculture. They were satisfied then, for this gave them control.

Bankers Win.

A majority of the Board are now bankers; all of

the members of the Federal Advisory Council are bankers, and a majority of the directors of each and every one of the 12 Federal Reserve Banks are bankers. This notwithstanding the platform pledges of all the political parties, including the Republican, the promises and assurances of President Wilson while a candidate, and the vote of the people on the subject. In fact, the platform declarations of the parties against the control of "financial or other special interests," "Wall Street control," etc., had direct reference to the bankers, because no other interest desired or sought to gain control.

Why Not Business Men as Directors?

There is nothing so mysterious, so complicated, about this Federal Reserve Board and these Federal Reserve Banks that the ordinary business man cannot direct and control them. As a matter of fact, the business men of the country are the directors of the banks of the country. There is no reason why this Board and these Federal Reserve Banks should not be governed by non-salaried business men, just as other banks are. Business men are interested in their success and their policies as well as the bankers. If mistakes are made they must pay the penalty, and they are therefore less likely to make them.

It is not in the public interest to have its banking and currency system under the control of any interest. A majority of its directors should not be of any class, whether merchants, laborers, farmers, or bankers. It should be composed as nearly as practicable of them all, and to such an extent that the geographical, industrial, and commercial **interests** are represented, and not their **divisions**. Self interest is the predominant motive of us all, and it colors the view of us all. We are often unconsciously influenced by it.

Country Opposed to Banker Control.

The people in a "solemn referendum" expressed their opposition to banker control, and they had the promise of the President and congressmen elect that their will would be expressed into law. They believed that their bankers had been too long in the shadow and under the

influence of the sinister power of Wall Street that they feared and respected it too much that they had absorbed too much of its spirit and ideals, and that they might yield too much to its blandishments. They realized that the interest of the banker is not wholly identical with that of the borrower that the banker is interested in high interest rates, the borrower in cheap; the banker in a high priced dollar and low priced wages and commodities, the borrower in a low priced dollar and high priced wages and commodities.

Banker Is Not Qualified To Direct the System.

The banker has had a training that tends to disqualify him, to contract the heart, narrow the vision and swell the head. He is coddled and flattered too much, and he is too self important and self satisfied. The dollar is too much his measure of values. He regards himself as the pillar of strength of his community and as the embodiment of its greatest virtue and wisdom, but he creates nothing, he adds nothing to its wealth and development, and in fact he is a direct charge and tax upon it. It is the borower and not the banker who makes the country prosper and the cities grow.

Mr. F. F. Lyford, President of the First National Bank of Waverly, New York, expressed this view admirably in an article published in *Finance and Commerce*, June 8, 1921, from which I quote:

“Is it possible the city banks are influenced by noting the large profits of the Federal Reserve Bank, and thinking more of their own earnings than they are of the good of their customers and the country?

“Weren’t they like the Irishman who said he did not know what temptation was good for unless he yielded to it?

“Hasn’t this advance of rate brought a great economic loss to the country, and thrown an unnecessary burden upon our business men?

“Are not business men our borrowers?

“Are not our borrowers the men of vision with courage to bring to pass things which most of us do not even see?

“Are they not optimists of the highest class?

"Would not the failure of a few optimists hinder more in the way of development of the world than the success of many pessimists?

"Isn't idle money as dangerous as idle men?

"Isn't it the duty of all people who have the handling of funds for others to keep them earning, and use them to the fullest extent at all times, rather than become pessimistic because we cannot see as far into the future as we would like?

"With all our vast resources, our reserve climbing, and successful floating of large loans, notably one of over \$200,000,000, doesn't it seem a little out of line that our discount rate should be 7 per cent, now 6½ per cent, and little Holland's 4½ per cent?"

(Note:—Here is one banker who admits that he does not know it all, and that he and his brethren might be selfish).

Banker Control is a National Calamity.

No greater calamity can befall a people than to have their prosperity under the control of a bunch of aged bankers, as we now have, with power to expand and contract it. It will usually be contracted. Age is attended with certain characteristics which add to the banker's natural pessimism. Age is facing the setting sun, and not the rising. Age is administering on its affairs, liquidating them for others to handle, in preparation for the great unknown. Age is contracting and not expanding, and it believes in contraction and liquidation and not in expansion. Age wants gold and government bonds and not lands and chattels. It is a natural hoarder of gold, and in its view nothing is good beside it.

Age sees prosperity only as a short lived mushroom existence that is due for a speedy fall, and it thinks the sooner it occurs the better. To age, enterprise is speculation and a Ford car rank extravagance.

These observations are descriptive of a class; they do not apply to all of its members. Fortunately, there are some who retain the spirit and optimism of youth. Fortunately, too, there are many who have had broad experience in other lines of endeavor, and who retain the vision and sympathies of their early training.

This description may not apply to the banker you know, nor is it intended for those bankers, to be found everywhere, who regard their business as an adjunct of legitimate industry. These have shared the burdens imposed upon the country by the deflation policy of the Federal Reserve Board, and have struggled heroically to lessen the inevitable disasters, which swept down like an avalanche when the Board inaugurated its policy of deflation. Until the final chapter shall be written this country will not be able to appraise its debt to the bankers who have declined to fall in with the cruel policy adopted by the Federal Reserve Board, and have given their full support to the industries dependent upon them.

The great majority of bankers have no sympathy with the purposes and policies recently adopted by the Board. Many of them have borrowed every dollar they could borrow rather than force their customers to sell on a demoralized market, and some of them have paid the F. R. Banks higher rates of interest on their loans than they have charged their customers.

Board Too Small.

Seven members are too many for a board of managers of the system, and too few for a board of directors. There is no reason why this institution should not be managed as others are, viz.: with its managing officer and his assistants, and with a board of directors sufficiently large to represent the various interests that are concerned in the enterprise. Seven men are more easily controlled by special or political interests than a larger number. Seven men cannot fairly represent—cannot be in touch—with the diversity of interests in the United States, particularly if they all reside in Washington and four of them are bankers.

Representative men will not reside in Washington for a salary of \$12,000 a year, holding a job that is a sinecure. The residence and salary requirements of the present law will mean a directorate of salaried men who seek and hold the job because of the salary.

The Aldrich bill called for a non-salaried, non-resident directorate of 45 men, and for monthly meetings.

It is a great improvement on the present law in that respect. It was contemplated by the Aldrich bill that the members of the President's cabinet, all of whom were ex-officio directors, should constitute the resident directors and the executive committee.

Powers of Federal Reserve Board.

Section 11 of the Federal Reserve law provides in substance that the board shall have general supervision over the F. R. Banks. It is given the power to suspend or remove any officer of any of the banks, to suspend the bank itself, to take possession of it, and when it "deems advisable, to liquidate or reorganize such bank." It has the exclusive power and discretion to issue Federal Reserve notes, which shall be the obligations of the United States, for the purpose of making advances to Federal Reserve banks. It has the power to "limit or restrict discounts" and to fix the rate of discounts, and to contract and to expand currency and credit at will. In fact, it is the supreme power and there is no appeal from any of its decisions. It has all of the power and functions provided in the Aldrich bill for the central bank, except that of receiving deposits.

Powers of Federal Reserve Banks.

The Federal Reserve Banks are authorized to receive deposits from member banks, other banks, and the government, and to discount notes, drafts, bills and bills of exchange issued for agricultural or commercial purposes. Their power to discount foreign bills, establish foreign accounts, to buy and sell bonds and notes of the United States, bills, notes, warrants, etc., having a maturity date of more than six months, to fix rates of discount, or to do any act not involved in routine banking, is subject to the approval of the Board.

The Board is the Supreme Power.

Although the law in express terms only gives the Board the right to "supervise," which does not involve the right to direct and control, it, in effect, gives it the power of control by vesting it with the final discretion and authority. To be more exact, by vesting the power

in the banks subject to its "approval" or "review and determination" or "rules and regulations." The board is given the exclusive power to determine policies. The bank's power to initiate any policy beyond routine banking is subject to the Board's approval. The Board maintains a private telegraph wire with all of the banks for the purpose of directing their operations.

In a centralized system the final power and discretion must be in the Board; in a decentralized system, in the banks. In a centralized system the Board must have general authority, and the banks limited; in a decentralized system the banks must have general authority and the Board limited. In our present system the Board has the general power and the banks limited power.

Bankers Control the Directorate of Reserve Banks.

Section 4 of the law provides that each of the 12 Reserve Banks shall be governed by a board of 9 directors, holding office for 3 years and divided into 3 classes, designated as Classes A, B and C. Class A shall consist of 3 members who shall be chosen by and be representative of the stock-holding banks. Class B. shall consist of 3 members who shall be "actively engaged in their district in commerce, agriculture, or some other industrial pursuit." (Note. These are also chosen by the stockholding banks.)

Class C. shall consist of 3 members who shall be designated by the Federal Reserve Board.

The Federal Reserve Board is directed to designate one of the Class C. directors as "Federal Reserve Agent" and Chairman of the Board, who shall be a person of "tested banking experience," and to appoint another one of the Class C directors as Deputy Chairman to exercise the powers of the Chairman when necessary. Thus the law, although providing that "no director of Class C. shall be an officer, director, or employee, or stockholder of any bank," actually requires that two of them shall be of "tested banking experience." This can, of course, be met by the resignation of bankers from the banks with which they were connected prior to their appointment as Class C directors. Thus the law provides, in

rather an adroit way, for five banker directors out of the nine; for banker control of the banks as well as the Board, even though the power of the banks is subordinate to the Board.

Bankers Control Federal Advisory Council.

Section 12 of the law provides that "the Federal Advisory Council shall have power, by itself or through its officers, (1) to confer directly with the Federal Reserve Board on general business conditions; (2) to make oral or written representations concerning matters within the jurisdiction of said board; (3) to call for information and to make recommendations in regard to discount rates, rediscount business, note issues, reserve conditions in the various districts, the purchase and sale of gold or securities by reserve banks, open-market operations by said banks, and the general affairs of the reserve banking system."

It will be noted that this Advisory Council is only given power to advise and not to direct and control. Apparently this is an honorary body with limited power, but it in fact is a quasi directorate.

The law provides that "each Federal Reserve Bank by its board of directors shall annually select from its own district one member of said council." Nothing is said about the qualifications of the members of this "council." But as bankers desire these directorships, and as bankers control the Federal Reserve Banks, a majority of the Advisory Council will always be bankers. All of the members of it at this time are bankers. Bankers control the board, the directorships of the banks, and the Advisory Council—the entire system, root, tree and branch.

CHAPTER FOUR

The Federal Reserve Note An Insidious Device for Hoarding Gold

The Aldrich bill provided for a gold reserve of 50 per cent of notes and deposits—demand liabilities—of the Federal Reserve Banks, which may be regarded as the Republican position on that subject. The Democrats stood for such a “systematic revision of our banking system as will render temporary relief in localities where such relief is needed.” The Progressives declared “the issue of currency is fundamentally a government function and the system should have as basic principles soundness and elasticity.” Whatever may have been meant by “systematic revision of our banking laws” it is clear that the democratic party promised a system that would wrest the “control of business” from the Wall Street banks; that would afford “temporary relief” when and where needed to prevent panics and depressions; that would limit the “misuse of power that wealth gives” to bring them about; and that would furnish a currency of “absolute security to the public.”

It is a fair inference that it was against a system that would contract the existing currency; that would “salt down” gold in order to prevent its use and the expansion of business, and that could be employed by selfish interests to contract values and business, and against the currency provided for in the so-called Aldrich bill.

Purposes In View.

The country was still suffering from the disastrous panic of 1907, which resulted from a lack of currency, when the party conventions were held. The purposes in view of all of the parties were to provide a banking and currency system that would prevent the recurrence of such panics, with their consequent unemployment and business depressions. All of the parties recognized that this could be done by providing an adequate banking and currency system. None of them were seeking a system

or a currency that would prevent expansion; all were for one that would permit it. None of them were proposing to repeal the existing currencies, but they were all proposing to add to them—and especially to add the element of elasticity which they did not then possess. There was no disagreement between them as to the purposes in view; they only disagreed as to the means of accomplishing these ends.

Federal Reserve Note a Snare and a Delusion.

The Federal Reserve note is one of the devices that the Democratic administration adopted to prevent these recurring panics and depressions,—to afford “temporary relief when and where needed.” It is a “snare and a delusion;” a snare in that it covertly hoards gold, limits credit, and contracts values. A delusion in that it is not elastic, can only be issued at the discretion of the Board and does not in itself respond in any sense to the demand.

This note is the demand obligation of the United States. It is intended for temporary use only by the Federal Reserve Bank to which it is issued; the other Federal Reserve Banks are required under penalty not to use it but to return it to the Reserve Bank to which it was issued, or to the U. S. Treasurer for redemption. Its average life is about 100 days. It is as good and as solvent as the government that issues it. It needs no gold for its security because it has behind it the resources of the entire nation and the taxing power of the government.

Government Note Is Well Secured Without Gold Reserve.

In addition to the gold reserve these notes are secured by notes, drafts, bills of exchange available for discount at the Federal Reserve Banks, by the endorsement of the member bank discounting them, and by the guaranty of the Federal Reserve Bank applying for the currency; all of which is also security to the U. S. Government. The Federal Reserve Board is given the power to call upon the Federal Reserve Banks for additional security to protect the notes issued to them.

It is a better secured note without the gold reserve than the national bank notes, \$855,794,291 of which are still in existence and are of equal value with gold. It is

only a temporary note to meet a temporary demand and to supplement existing currencies, while the national bank note is a permanent currency that is not intended to be withdrawn from circulation as soon as used.

Gold Reserves.

Section 16 of the law provides as follows: "Every Federal Reserve Bank shall maintain reserves in gold or lawful money of not less than 35 per cent against its deposits, and reserves in gold of not less than 40 per cent against its Federal Reserve Notes in actual circulation."

The Glass bill as adopted by the Democratic caucus provided for a reserve of 33 1-3 per cent against deposits and notes. The present law disposes of 20 per cent more gold and contracts credit and values accordingly; or, to use the language of the Aldrich Monetary Commission, prevents "expansion" accordingly. If the ideal system is to contract credit, to prevent expansion, and to prevent prosperity,—as many bankers seem to think—then it is 20 per cent better than the reserve recommended by Senator Aldrich, and the Glass bill of August 29, 1913; but if the purpose is to furnish a currency to meet the requirements of industry, to allow expansion and contraction to operate naturally, then it is 20 per cent worse.

Federal Reserve Notes Are Not a Basis for Credit.

The present depression has been caused by a lack of credit, rather than of currency. Our permanent currencies, consisting of gold coin and certificates, silver coin and certificates, greenbacks (originally the much reviled Fiat money, issued by virtue of the act of Feb. 25, 1862), and national bank notes, can alone be used as a basis of credit. The Federal Reserve notes cannot be used for that purpose for they must be promptly redeemed when they have served their temporary purpose.

Bank Reserves.

Under the law the country banks are now required to maintain a reserve of 7 per cent of the amount of their deposits with the Federal Reserve Banks. The city banks are required to keep from 10 per cent to 13 per cent. None of them are required or permitted to keep any re-

serve in their vaults. Their power to lend is absolutely suspended when their reserve with the Federal Reserve Bank falls below the legal limit; they usually maintain it considerably above the limit.

Apparently the amount of the reserves the banks are now required to keep is less than under the old law, but as a matter of fact they keep and must keep more than formerly. They must necessarily keep enough currency in their vaults for the transaction of their business, which is in addition to the amount they are required to keep in the Federal Reserve banks. Under the old law all of the legal tender money held in their vaults was counted as part of their reserve. Monies in their vaults therefore performed the double function of providing them with currency and serving as their reserve, which is not now the case.

Gold Reserve Kills Gold and Contracts Credit.

When gold is set aside as a reserve for notes and deposits it can be used for no other purpose; it is withdrawn from circulation; it ceases to be a part of the money of the country; and it therefore ceases to be a basis for the extension of credit by the banks. It is killed and buried, and it is dead beyond the power of resurrection except by action of the Board. It is the policy of the present Board to put all of their gold in these reserve accounts, no matter how small the volume of their outstanding notes. They kill and bury all they get and they will eventually get practically all there is in the country.

"Whatever may be the quantity of money in the country, only that part of it will affect prices which goes into the market of commodities, and is there actually exchanged against goods. Whatever increases the amount of this portion of the money in the country tends to raise prices. But money hoarded does not act on prices. Money kept in reserve by individuals to meet contingencies which do not occur, does not act on prices. The money in the coffers of the Bank, or retained as a reserve by private bankers, does not act on prices until drawn out, nor even then unless drawn out to be expended in com-

modities." (Mill's "Principles of Political Economy," Vol. 2, page 34).

At this time, Aug. 3rd, 1921, they have \$2,703,843,000 of dead gold, legal tenders and silver in these accounts, and their outstanding notes amount to \$2,536,673,000. They have actually \$167,170,000 more money in their reserve accounts at this time than the amount of their outstanding notes. If all this gold was alive and in circulation it would increase the lending power of the or \$27,000,000,000. It would have the same credit power if gold certificates were issued against it instead of Federal Reserve notes.

The full import of this will be better understood by comparing it with the volume of outstanding loans of all of the national banks of the country, which on Nov. 15, 1920, amounted to \$13,744,385,000; it would enable the banks to increase their loans to 40 billion dollars.

It would mean that instead of the present gloom and depression we would be the most prosperous country in the world. All fear would be removed from the hearts of the timid, and the designing could not carry out their schemes.

Federal Reserve System a Great Trust for Hoarding Gold and Controlling Business.

Men marvel that with our enormous increase of gold we have an enormous contraction of credit and of values. They do not understand that the Federal Reserve System is the greatest gold and credit hoarding scheme that has ever been devised; that commerce and industry have through it been bound hand and foot by the big bankers; and that through it the greatest trust has been organized that the world has ever known. If our gold should double in volume, if we should get the entire world's supply, it would have little effect on values, on credit, and on property, without the consent of the board and the bankers.

Money Has Been Contracted Since 1913.

The 1920 report of the U. S. Treasurer reveals some startling information:

MONEY IN CIRCULATION.

| Fiscal Year | Gold Coin and Gold Certificates | Federal Reserve Notes, Treasury Notes, and United States Notes | National Bank Notes (including Federal Reserve Bank Notes) | Silver Coin and Silver Certificates | Total | Circulation Per Capita |
|-------------|---------------------------------|----------------------------------------------------------------|------------------------------------------------------------|-------------------------------------|-----------------|------------------------|
| 1913 | \$1,612,398,508 | \$ 339,871,850 | \$715,754,236 | \$695,713,855 | \$3,363,738,449 | \$34.56 |
| 1914 | 1,637,693,820 | 340,273,410 | 715,180,037 | 708,868,160 | 3,402,015,427 | 34.35 |
| 1915 | 1,662,981,438 | 414,961,583 | 785,393,047 | 705,883,506 | 3,569,219,574 | 35.44 |
| 1916 | 2,051,072,561 | 516,918,497 | 728,362,789 | 727,743,915 | 4,024,097,762 | 39.28 |
| 1917 | 2,428,226,886 | 882,344,091 | 710,142,341 | 742,862,314 | 4,763,575,632 | 45.74 |
| 1918 | 1,932,430,775 | 2,054,968,181 | 718,313,171 | 673,115,297 | 5,379,427,424 | 50.81 |
| 1919 | 1,642,715,535 | 2,828,637,649 | 812,887,471 | 481,789,318 | 5,766,029,973 | 53.59 |
| 1920 | 1,229,909,918 | 3,458,374,140 | 894,755,291 | 504,515,738 | 6,087,555,087 | 56.81 |

It will be noted that the Federal Reserve note is included as money, and that on July 30, 1920, it constituted

practically half of our total supply. This report is misleading. It is not money. It is only a temporary currency to meet a temporary demand. It is not legal tender, does not measure values and cannot be used as a basis of credit. It performs only the temporary function of a check or draft that circulates as currency. It cannot be kept in the reserve account of a Federal Reserve Bank or counted as part of its reserve. It has no stability; it is in today and out tomorrow.

Gold is International Money.

This does not imply that this note could not be made money, with all its attributes and of equal value with gold; only that it has not been done. There is nothing about gold that makes it better money for domestic use than Government demand notes or Fiat money. It is the government stamp and not the metal that makes money.

It is true that gold has a value as international money, which establishes a market for it, but this is due also to the fact that it is the accepted medium of international exchange. The nations could by co-operation and agreement adopt another and different medium.

It is not pounds nor dollars, nor lire, nor marks, nor roubles, that are used in paying the debts due by the people of one country to those of another. It is gold. The monies of a country are intended only for domestic use; they have little circulation outside of the country that issues them. Gold is universally accepted as international money, and is universally used as such.

May Be Necessary to Demonetize Gold Either as Domestic or International Money.

If we continue to acquire gold and to hoard it through our banking system, it will make it necessary for the world to adopt a different medium of exchange. We have increased our holdings from 16 per cent of the world's supply in 1915 to 38 per cent (some estimate it at 42 per cent) at this time. We now have large obligations due us, which gives us the right to demand gold. There is reported to be a serious falling off in the production of it at the mines. It is a matter of world importance

that all of the gold be put into circulation that our banking system is now hoarding.

In a recent speech before the Ohio Bankers Association the present Comptroller of the Currency, Mr. D. R. Crissinger, said:

"I think we will be wise if we carefully consider, therefore, whether international commerce may not be considered somewhat by itself, and provided with special financial facilities of its own, independent and apart from the money systems of the different countries. I am convinced that the exigencies of these times must be dealt with by processes more or less new, and adapted to deal with international trade.

"I have been impressed that in the last few years the world has failed to make most effective use of its monetary gold. The United States has drawn so much gold that many authorities believe we have more than is good for us; while everybody agrees that most other countries have less gold than they really need.

"There can seemingly be no re-establishment of a real universal metallic basis, so long as production of gold is far below normal, while production of paper money is far above normal. The outlook for increased production of gold is not promising and no more is the outlook for a considerable reduction in paper circulation.

"It has been suggested, therefore, that we might place the international trade on a gold basis by establishing a sort of international credit and settlement system to which a sufficient share of gold should be devoted, to give these transactions a more uniform character and to prevent those violent fluctuations in exchange which render so dangerously uncertain all the processes of trade. It seems to me that we would make a better use of the gold resources which we possess if we would use them first to establish a firm, secure and adequate gold basis for international commerce."

This is the language and the thought of a banker and a statesman, and they deserve the thoughtful consideration of congress and the country. Mr. Crissinger explained that his suggestion was not in conflict with the

“ter Meulen” plan adopted by the Brussels financial conference and the League of Nations.

Circulation of Gold Reduced.

It will be noted also that from 1913 to 1917 practically our entire stock of gold was in circulation, but that since that date it has been withdrawn from circulation. It is clear that during 1914, 15, 16, and 17 it was the policy of the board to put in the reserve account only the amount of gold required by law, and not all they hold, as they now do. In 1914 we had in circulation \$1,637,-693,820 of gold, which was all we had; in 1917, \$2,428,-226,883; in 1920 \$1,229,909,918. **We actually had \$382,-488,000 less of gold in circulation in 1920 than in 1913, and \$1,220,000,000 less than in 1917, although we actually had a stock in 1920 of \$2,693,963,709.**

We have had an increase of about \$650,000,000 of gold during the past 12 months, but it is safe to say, in view of the policy of the Federal Reserve Board, that we have had no increase in the amount of it in circulation. It is estimated that we now have a stock of \$3,500,000,000, of which \$2,552,813,000 lies dead and buried in the vaults of the Federal Reserve Banks,—the most of the balance of it is buried in some other place, probably with the private international bankers. The world's stock is estimated at \$9,000,000,000.

Per Capita Circulation.

It will be noted that the per capita circulation is put at \$56.81 on June 30, 1920 as against \$34.56 in 1913, which is also misleading. If the Federal Reserve note is eliminated from the calculation, our actual money in circulation according to this report, was less than \$30.00 per capita on June 30, 1920, as against \$34.56 of real money in 1913. Our per capita circulation is in fact about \$20.00 per capita, as will be hereafter shown.

The Treasury Department gives out the information that on June 30, 1921 our per capita circulation was \$52.28—the reduction of \$4.50 during the year being due to the retirement of Federal Reserve notes. If our gold were in circulation, instead of being dead in the vaults of the Federal Reserve banks, we would have an actual per

capita circulation of about \$57.00, and an actual basis for substantial prosperity.

Money Is the Measure of Values.

Economists generally agree that money is not only a medium of exchange, but that it is the measure of values. As the volume of money increases values increase, or in the language of the banker "expand;" conversely, as the volume of money diminishes values contract. The Federal Reserve note, which is a temporary currency, has no stability and it therefore tends to unsettle values and to keep them in a state of flux. The volume of the Federal Reserve notes is now approximately \$700,000,000 less than seven months ago, which represents a contraction of about \$7.00 per capita. This contraction is progressing at the rate of about \$100,000,000 per month.

It will be noted from the table above that the Board has also retired from circulation and use nearly \$200,000,000 of silver since 1913. If this silver were now in circulation it alone would increase the lending power of the banks about \$2,000,000,000.

Credit is the Life of Business.

Perhaps in value one hundred times more business is transacted with credits than with currency. It is seldom that currency is used in the settlement of large transactions,—these are concluded by the transference of credits. It is therefore a far more serious matter to contract credit, than currency, except in so far as the contraction of currency operates to contract credit. There are substitutes for currency but none for credit. Contraction of currency does not in itself throw men out of employment, shut down factories, limit production, force bankruptcies and bring about general stagnation and depression,—as does the contraction of credit.

Our stock of gold is now 2 1-3 times greater than in 1913, but we now have values reduced to around pre-war levels. Our factories are working about 50% of normal, the building trades less than 50%. It is estimated that we have more than 5,000,000 idle men. Every one is liquidating because he is under pressure; no one is undertaking new enterprises or investments. Money cannot

be had for "capital and speculative purposes"—and but little of it for any purpose. It is said that we actually need five million new houses and that the railroads need to spend \$5,000,000,000 to put their properties in shape to handle the commerce of the country when it becomes normal.

This is the direct and natural and inevitable consequence of the retirement from circulation of two-thirds of our gold supply and 50% of our total money supply. It could not be otherwise, for it is part of the foundation upon which the credit structure rests. Neither the importation or exportation of gold means anything to us or to our values or to our money supply, or to our prosperity unless the gold, or its equivalent, gold certificates, is permitted to circulate as money.

A 50% reduction of the money in circulation means a 50% reduction of credit and a 50% reduction of wages and of values. Values and wages will seek and find the level of money as surely as water seeks and finds its level.

CHAPTER FIVE

What Bank Reserves Should Be Held to Secure Notes and Deposits?

There are those who contend that there should be some gold reserve against the government notes called Federal Reserve notes, but none will argue that 40% is needed, and all must admit that government bonds will answer the same purpose. This has been conclusively demonstrated by the national bank notes now outstanding, which have no security other than government bonds.

Section 16, page 35, of the law provides:

"The Federal Reserve Board shall require each Federal reserve bank to maintain on deposit in the Treasury of the United States a sum in gold sufficient in the judgment of the Secretary of the Treasury for the redemption of the Federal reserve notes issued to such bank, but in no event less than five percentum of the total amount of notes issued, less the amount of gold or gold certificates held by the Federal Reserve agent as collateral security; but such deposit of gold shall be counted and included as part of the forty per centum reserve hereinafter required."

This clearly indicates that in the view of congress only a reserve of 5% is actually needed for the redemption of Federal Reserve notes. As a matter of fact this is the approximate amount that experience has demonstrated is really needed, though some economists contend for 10% and others as high as 15%. The low percentage is well illustrated by the fact that the banks now, when people are supposed to be hoarding money, only have enough money to pay 3% of their deposits. Very few people demand that their deposits be paid in money; a still smaller number will demand that the government notes be redeemed in gold.

Ex-Vice President Thos. R. Marshall, the presiding officer of the senate when the Federal Reserve law was enacted, said in a recent newspaper interview:

"In the long discussion of the Federal reserve act it was universally admitted that it was needful to have a 15% gold reserve." (See files Dallas News Aug. 14, 1921). This can only have application to note issues and not to deposits. This must reflect the view of Senator Aldrich and the Monetary Commission, for their report was then pending before the senate, and Senator Aldrich and the members of his commission were regarded as authorities on that subject. Mr. Marshall was present during the entire discussion of the subject while it was before the senate; his statement can therefore be accepted without reservation.

It represents the view of the financiers and economists who believe in a large gold reserve. All of the members of the Aldrich Commission were in favor of maintaining an excessively high gold reserve in order to prevent the possibility of "undue expansion of credit," as appears in their report to the senate, and the "Aldrich bill" which they submitted, provided for a gold reserve of 50%. There is no reason for a gold reserve for deposits,—absolutely none—except to destroy the credit power of that much gold.

Function of Bank Reserves.

These reserves against deposits are intended to be used in case of a run on the bank or other emergency. In that event the bank is in position to call on the Federal Reserve Bank for currency to supply the demands of its depositors. But it is not intended to pay them in gold, nor has gold ever been used for that purpose. As a matter of fact the member bank has not the right to draw out its reserve without the consent of the Federal Reserve Bank. It is intended that the demand for currency shall be met by issuing Federal Reserve notes.

The Federal Reserve Banks hold only the deposits of member banks and the government. Their assets consist of money and short time, well secured paper. They have the power to convert all of it into currency, subject of course to the "approval of the Board." They can, therefore, supply currency without limit.

They are also a part of a system having a capital of \$100,000,000 and a surplus of \$200,000,000 with the right

to call on the member banks for their unpaid subscriptions amounting to \$200,000,000 more. In case of emergency they support each other and they are supported by the government. They are as strong as the combined banking power of the nation, with the backing of the U. S. Government. Compare this with the old system of reserves as described in the first chapter.

In reporting the Aldrich bill to congress the Monetary Commission, of which Senator Aldrich was Chairman, made a very clear statement of the purpose of these reserve requirements as follows: "The provision that the reserve association shall hold a reserve of not less than 50% against all of its demand liabilities,—a provision which is unique in monetary legislation—and the provision that the progressive tax shall be imposed on any deficiency reserve, will, we believe, discourage undue expansion of credit." They further report: "In none of the leading countries of Europe are there any statutory limitations on credit expansion. In fact there is no limitation whatever, either by law or custom. This is true not only of the central banks, but also of the joint stock banks of these countries. Each bank acts for itself in this respect." (See Senate Doc. No. 243, pages 36 and 37).

This is the report of the Aldrich Monetary Commission to congress signed by Senator Aldrich and all of the other members of the Commission, all of whom favored the Aldrich bill with its gold secured note. It represents the result of two years of investigation and study, including a visit to all of the leading countries of Europe. It should be accepted as an official and final statement of the purpose of the gold reserve above 15% for both notes and deposits, without further argument or evidence. Really the argument of the preceding pages is superfluous except as an explanation of the operation of the system, concerning which there is so much misunderstanding and misrepresentation.

If the chief end of a banking system is to "discourage undue expansion of credit" the scheme is a conspicuous success. We are now witnessing the operation of this "unique monetary legislation that has never been tried in any of the leading countries of Europe" nor in this

country; this experiment in financial legislation which has been written into our law by the international bankers for the purpose of enhancing the value of gold and of contracting credits and values, in opposition to the expressed will of the people.

Amount of Gold Reserve to Secure Bank Deposits.

The reserve account of member banks on July 6th, 1921 amounted to \$1,651,757,000. The Reserve banks have therefore set aside \$577,850,000 of gold to secure these accounts. If this gold was in circulation it would increase the lending power of the banks approximately \$5,778,500,000. There would be money and credit for the development that is so badly needed; it would prevent the sacrifice of the live stock industry; it would start the wheels of industry and inspire men everywhere with hope and courage.

Federal Reserve Notes not Elastic But Manipulated Currency.

Section 16 of the Federal Reserve law provides: "Federal Reserve notes to be issued at the discretion of the Federal Reserve Board for the purpose of making advances to Federal Reserve banks through the Federal Reserve agents as hereinafter set forth and for no other purpose, are hereby authorized." Also, "The board shall have the right acting through the Federal Reserve agent to grant in whole or in part or to reject entirely the application of any Federal Reserve Bank for Federal Reserve notes."

This language is perfectly clear. It needs no explanation. The Board is given the right to grant the application for currency "in whole or in part or to reject it entirely" regardless of the recommendation of the Federal Reserve bank, or its need, or the security offered. The power to pass upon the need for currency in any locality is ruthlessly taken from the local Federal Reserve Bank and lodged in the Board at Washington.

This is not elastic currency; it is manipulated currency. Elasticity implies automatic expansion as the demand increases, and automatic contraction as the demand diminishes. There are minute and ample provisions in

the present law for contraction, but the expansion is dependent upon the caprice, the mood, the temperament, the wisdom, and the integrity of purpose of a Board of managers located in Washington, and there is no appeal from their decision. It expands as much,—and no more—as they want it to expand. The demand has nothing to do with the amount to be issued unless they choose to recognize it.

Expansion Is Limited by Supply of Gold.

The expansion of these bank notes is also limited by the volume of gold that the Federal Reserve Banks hold after setting aside the 35% reserve for member bank deposits, which must first be done. There must then be set aside a reserve of 40% to secure these government notes. If by exportation or manipulation of gold there is none left for these government notes after setting aside the 35% for deposits, then no notes can be issued or put in circulation. As the country prospers and bank reserves increase, the amount of gold for bank deposits will increase and the amount left to secure these notes will diminish. It is easily conceivable that in a time of very great prosperity we will have a collapse of credit and a panic from the sheer inability of the system to expand the currency because of a lack of gold for that purpose.

CHAPTER SIX

Under the Constitution Only Congress Has Power to Issue Money

Our constitution gives congress the power and discretion to issue money and regulate the value thereof, by Section 8, Art. 1 of the constitution which provides as follows: "The congress shall have power to coin (issue) money, regulate the value (volume) thereof, and of foreign coin, and to fix the standard of weights and measures." If these notes are but a temporary device without the attributes of money, as I have described them to be, they are not subject to this constitutional objection. The constitution, however, conclusively disposes of any contention that they are, or can be made money.

The discretion is lodged in congress alone to issue money and regulate its value. No principle of law is better established than that congress cannot delegate this discretion to any other agency or body of men. It and it alone is the agency that the people have by their national compact invested with the tremendous power to regulate the volume and value of their money and their property, and their consequent prosperity and happiness. If the people had desired a board for this purpose they could have provided for it, as they did for a Supreme Court and inferior courts.

The constitutionality of the national bank note was sustained upon the ground that it created a market for government bonds and thereby assisted the fiscal operations of the government. The national bank act was enacted soon after the Civil War, when the credit of the government and the wealth of the country were at a low ebb. No such condition prevails now, and no such purpose is intended to be subserved by the Federal Reserve note.

The Destruction of the Power of Gold by the Federal Reserve Board Unconstitutional.

The destruction of gold as money by the Federal

Reserve Board, and the attempt of the Board to regulate the volume of money, are plainly unconstitutional, since congress alone has that authority. Congress has the power to demonetize gold in whole or in part, or to provide that a certain amount of it shall be set aside to secure bank deposits and Federal Reserve notes. Congress has the power to provide for a fixed 40% gold reserve for notes, and a fixed 35% for deposits, but it has not the power to provide for a reserve of **not less** than 40% and 35% respectively, for that involves the discretion in the board to set aside and withdraw from circulation the entire stock of gold.

It involves also the power in the board to "regulate the value" of money, which is conferred by the constitution upon congress alone. It is elementary that the quantity or volume of money and the demand for it fixes its value or purchasing power. As the quantity increases and the demand diminishes, its value or buying power is depreciated; as the quantity diminishes and the demand increases, its buying power is appreciated.

According to their statement of Aug. 3, 1921, the notes is more than 82.4% after deducting 35% for deposits. They are entitled to set aside according to their Aug. 3rd statement \$593,330,000.00 against deposits,— and \$1,014,800,000 against notes, or a total of \$1,588,-130,000; but they have actually set aside \$2,552,813,000 of gold, and \$151,050,000 of silver and legal tender, or a total of \$2,703,843,000, against notes and deposits, or an excess of over \$1,115,713,000 more than the amount permitted by the constitution.

Congress has the authority under the constitution to kill and bury the 1,588,130,000; the Board has not the authority under the constitution to kill and bury the additional \$1,115,713,000, and congress can not grant them any such authority.

If this \$1,115,713,000 of gold unlawfully withheld from circulation, and \$204,000,000 of silver unlawfully withdrawn from circulation, for the unlawful purpose of regulating the value of money and property, were in actual circulation, it would increase our money supply \$1,-319,713,000 or one-fifth of our alleged total volume,—

or 40% of our actual volume. It would add to the lending power of the banks approximately \$13,000,000,000.

There is supposed to be about \$1,000,000,000 of gold in actual circulation, but there is no evidence of it. It must be hidden in some adroit and undisclosed way. In the City of Fort Worth, having bank resources of \$75,000,000.000 there is no gold.

Full and unexpected confirmation of the statements and arguments contained in the preceding pages is to be found in a letter from Hon. W. P. G. Harding to Hon. G. P. McLean, Chairman of Senate Committee on Banking and Currency, which is published in the U. S. Treasurer's (Hon. Carter Glass) report for the year 1919, pages 18 to 20. It appears from this report that:

"The progressive rise in commodity prices and wages have led to considerable public discussion as to whether there existed an inflation of the currency, and whether such inflation, if it existed, was a cause contributing to high prices. The discussion led to the introduction in the Congress of a resolution requesting an inquiry into gold reserve at that time against the Federal Reserve the advisability of legislation providing for the gradual reduction of the currency in circulation. The chairman of the Senate Committee on Banking and Currency requested the views of the Federal Reserve Board on the subject, and I fully concur in the answer of the board, as embodied in Governor Harding's letter to Senator McLean, under date of Aug. 8, 1919."

In reply to this request Gov. Harding wrote the following illuminating letter, which is published in full in Secretary Glass's official report for the year 1919:

"A distinction should be drawn between the stock of money in the country and the amount in actual circulation.

* * * * * The amendment to the Federal Reserve Act approved June 21, 1917, changed substantially the original reserve requirements for member banks and provided that their entire lawful reserve should be carried with the Federal Reserve. The same amendment authorized the Federal Reserve banks to exchange Federal Reserve notes for gold. The result of these two changes in the law was to transfer immediately large sums of gold from the

vaults of the member and nonmember banks and from general circulation to the Federal Reserve banks, and this caused a change in the methods of accounting for gold by the Federal Reserve banks and Federal Reserve agents.

"In order to avoid confusion in determining the volume of money in actual circulation, it is necessary to distinguish between tables showing the total stock of money in the country, and tables showing the circulation outside of the Treasury and Federal Reserve agents' vaults, and to limit our view to amounts held by member and nonmember banks and the public, which are exclusive of amounts on hand at Federal Reserve banks, held by Federal Reserve agents, and held in the Treasury."

| | Apr. 1, 1917 | Dec. 1, 1918 | Aug. 1, 1919 |
|---------------------------------------------------------------------------|-----------------|----------------|----------------|
| Gold coin and certificates . . . | \$1,989,152,000 | \$ 861,245,000 | \$ 728,046,000 |
| Silver dollars and silver certificates (including Treasury notes of 1890) | 532,700,000 | 732,489,000 | 241,505,000 |
| Federal Reserve notes | 357,239,000 | 2,607,445,000 | 2,504,753,000 |
| Federal Reserve bank notes | 3,170,000 | 87,737,000 | 166,289,000 |
| All other currency | 1,218,715,000 | 1,201,069,000 | 1,156,297,000 |
| <hr/> | | | |
| Total | \$4,100,976,000 | 5,129,985,000 | 4,796,890,000 |
| Amount per capita outside the Treasury and the Federal Reserve banks | \$39.54 | \$48.13 | 45.16 |

It appears from this table that instead of there being \$1,932,430,775 of gold in circulation in 1918 as shown by Secretary Houston's table, there was actually only \$801,245,000; instead of there being \$1,642,715,535 in 1919 there was only \$728,046,000. According to this table, including the Federal Reserve notes, we only had \$4,100,976,000, or \$39.54 per capita in circulation in 1917, instead of \$4,736,575,632, or \$45.74 as shown by Secretary Houston's table; only \$4,796,890,000 or \$45.16 per capita in 1919 instead of \$5,766,029,973 or \$53.59 per capita as shown by Secretary Houston. Secretary Glass's statement of the actual money in circulation on

pages 18 and 20 of his report contradicts his statement of it on page 645 of the same report, where he states it substantially as does Secretary Houston.

Misleading Reports of Treasury Officials.

It is for these high dignitaries to reconcile their own reports, and to explain why one thing is stated for the information of the senate and another for public consumption. Both of these statements of the amount of "money in circulation" cannot be true. One or the other is false. Perhaps the actual truth has been concealed from the people out of a tender regard for their sensibilities. They will undoubtedly be shocked to know it. It is so unthinkable and so unreasonable that they perhaps would not fully credit my statement of it except for this official confirmation.

It is apparent that the reports of Secretary Houston and of Hon. Carter Glass on page 645 are false in that they report as "money in circulation" the entire stock of money in the country. They include as "money in circulation" the enormous sum that has been withdrawn from circulation by the Board. They fail to make the "distinction" which Gov. Harding says, with Hon. Carter Glass's approval, "should be drawn between the stock of money in the country and the amount in actual circulation." The dead money is worth nothing to us. It is a deception and a fraud to count it as "money in circulation."

According to this last statement, if the Federal Reserve notes are deducted, our actual money in circulation in 1919 is only \$2,292,000,000, or about \$20 per capita, which is about \$10 per capita less than the estimate based on Secretary Houston's false official report. This is less per capita than our circulation since the year 1880. It is impossible to determine from the conflicting official reports the exact amount of money that is actually in circulation.

This same letter also confirms what I have said regarding the instability and temporary character of the Federal Reserve note: "They are issued only as the need for them develops" * * * "Upon payment of commercial paper which has been deposited to secure Federal

Reserve notes there results either an immediate return of equal amount of notes to the bank, or an automatic increase in the percentage of gold reserve available for their redemption. **Federal Reserve notes are not legal tender nor do they count as reserve for member banks.**"

In this same letter written to a sympathetic deflationist, and which may therefore be taken as a statement of the truth, (not all of Gov. Harding's statements are to be so accepted) he says:

"The national bank notes outstanding on Aug. 1 1919, amounted to \$658,118,555.00, a reduction of nearly \$69,000,000.00 since July 1,1914. The greater part of these notes is secured by United States 2% bonds and provision has already been made in Section 18 of the Federal Reserve Act for their gradual retirement." Thus it appears that the Federal Reserve law provides for the retirement of the national bank notes, which will leave us nothing but the Federal Reserve notes.

CHAPTER SEVEN

Only \$22 Per Capita of Real Money in Actual Circulation

Mr. Jno. Skelton Williams, Comptroller and ex-officio member of the Board, made the following statement regarding the money in circulation in his 1920 report, pages 19 and 20:

"This would indicate an increase or expansion since July 19th, of \$1,962,000,000 in money in circulation. It is true that a part of the gold reserve held by the Federal Reserve banks represents gold formerly held by national and other member banks, which was part of the "circulation" reported as outstanding on July 1, 1914. But if we bear in mind that the function of gold held by the Federal Reserve banks is quite different from that held in their vaults by the commercial banks of the country, the criticism or suggestion that this money, which was properly classed as "in circulation" in 1914, when held by commercial banks, should not now, when held by Federal Reserve banks, be classed as gold "in reserve" (and not therefore "in circulation") can not well be sustained. Of the \$5,380,852,000 of money thus classed as being "in circulation" on July 1, 1920, there was held:

| | |
|-------------------------------------------------|----------------|
| In vaults of national banks | \$ 450,351,000 |
| In vaults of banks and trust companies | |
| under state supervision | 626,027,000 |
| By Federal Reserve banks, exclusive of | |
| gold pledged as reserve (\$1,061,093,000) | |
| against Federal Reserve notes outstanding | 960,178,000 |
| Balance in tills, cash registers, and in the | |
| pockets of the people (including money | |
| hoarded, in safe-deposit boxes, stockings, | |
| etc.) also including a considerable | |

| | |
|------------------------------------------------------------------------------------|-----------------|
| amount of our paper money circulating in Cuba and other foreign countries. | 3,344,296,000 |
| Total | \$5,380,852,000 |

Where Is the Money?

There are two errors in the above detailed statement. 1st, the \$960,178,000 of gold held by the Federal Reserve banks is not in circulation. It is held by the Federal Reserve banks as additional security for their notes and deposits and is as dead as the \$1,061,093,000 of gold which Mr. Williams eliminates. It is also held in their reserve accounts as part of the reserve although it is not needed for that purpose. It is in the same account, held for the same purpose and should therefore be eliminated in the same manner.

2nd. It can not be true that the people are hoarding \$3,344,296,000, or about \$30 per capita, or more money per capita than we had during the panics of 1907 and 1893. There has been no general hoarding by the people; it is being hoarded by others. It means that in towns having 1000 population there would be an average of \$30,000 in the pockets of the people; in counties of 100,000 population there would be an average of \$3,000,000 in their pockets and tills. Obviously the money that is in Cuba and foreign countries is not in circulation here, and does no good here.

There should not normally be more than \$500,000,000 in the pockets of the people; the peak should not exceed \$1,000,000,000, which is equal to the amount held on June 30, 1920, in the vaults of all of the 30,000 banks of the country. What has become of all of our money? Theoretically it is here according to the statistics and other data of the government. Who has it, and where is it? Fifteen months ago we thought we had all the country needed, and now we find that it has disappeared, and there is apparently none anywhere. According to Mr. Williams we have an indicated "expansion of \$1,960,000,000 since June 1914." Where is it, and where is the gold that has been coming to the country?

Estimating the amount of money in the pockets of

the people and in foreign countries at \$1,000,000,000, there is left \$2,344,296,000 to account for. This money has been hidden by some one who is not required to keep a public record and to publish a statement. It has been hidden secretly and it will remain hidden until the purposes of the persons hiding it have been accomplished. It will then reappear in circulation in such quantities as will best suit the purposes of the persons hiding it.

The best agencies for hiding money are the international banker, and the banks and trust companies having foreign branches, and the easiest money for them to handle is gold, which is current in every country, and the quantity of which is limited.

There is evidence that these financial highbinders and bandits have been aided and abetted by some of our larger industrial institutions, who are deeply interested in liquidating labor. Just prior to and during the early stages of the liquidating program, many of these institutions put out their long term notes and bonds at high interest rates, which were sold all over the country and which thereby gathered unto themselves a large part of the money and credit of the country. The big fellows all appear to have plenty of money and credit to buy in the property of their weaker competitors when offered under the hammer.

If we deduct from Mr. Williams' estimate of \$5,380,852,000 of money in circulation the \$960,178,000 of gold hoarded by the Federal Reserve Banks and the \$2,344,296,000 hoarded by others,—or a total of \$3,304,474,000, we have left \$2,076,278,000, or about \$19 per capita. This includes the Federal Reserve notes, which have since been reduced about \$900,000,000. All of the evidence points to the fact that our circulation is about \$20 per capita. This explains why there isn't any money in the country and why there is no credit available. My estimate of \$1,000,000,000 in the pockets of the people is purely arbitrary. If it is correct this statement is correct; if incorrect, the statement is incorrect accordingly.

One Billion or More in Hiding.

Mr. Williams testified before the Joint Commission of Agricultural Inquiry as follows:

"I should call attention, however, to the fact that the amount of Federal reserve notes outstanding at any particular period is no criterion of the amount of money in circulation, for the Federal reserve notes are largely issued in exchange for gold acquired and placed in the vaults of the reserve banks." (Vol. 13, Hearings of the Commission, p. 155).

I construe this statement to mean that the Federal Reserve notes issued in exchange for gold placed in the vaults of the Federal Reserve Banks are not put in circulation.

The statement of the Federal Reserve Banks of Oct. 19, 1921, shows total reserves, gold and silver, of \$2,921,760,000; total bills discounted, \$1,384,076,000, and total Federal Reserve notes \$2,440,862,000. It will be noted that the Federal Reserve notes exceed the bills that could be used as collateral for them by more than a billion dollars. There is no way of our determining how much of these bills have been used as collateral for notes; it is very likely that only a small part of them have been so used. It is quite probable that practically all of the \$2,440,862,000 of Federal Reserve Notes are based on gold. If so, these notes, or the most of them, according to Mr. Williams' testimony, are dead money and not in circulation; that is true at least to the extent of more than one billion dollars of them. This reveals the hiding place of at least one billion of hoarded money, and probably much more.

On page 263 of his report Mr. Williams makes the following statement:

"A classification of the coin and other currency held by national banks, banks other than national, and the Federal Reserve banks is shown in the following table:

Cash In All Banks June 30, 1920.

(In thousands of dollars)

| Classification | 8,030 | 22,109 | Total |
|-----------------------------|----------|------------|-----------|
| | national | State, etc | 30,139 |
| | banks | banks | banks |
| Gold coin | 21,532 | 12,683 | 34,215 |
| Gold certificates | 37,124 | 4,804 | 41,928 |
| Silver coin | 43,617 | 14,793 | 58,410 |
| Silver certificates | 30,917 | 13,186 | 44,103 |
| Legal-tender notes | 34,300 | 98,703 | 133,003 |
| National-bank notes | 67,256 | 9,492 | 76,748 |
| Federal Reserve notes | 215,605 | 37,375 | 252,980 |
| Nickels and cents | | 2,524 | 2,524 |
| Cash not classified | | 432,467 | 432,467 |
| <hr/> | <hr/> | <hr/> | <hr/> |
| Total | 450,351 | 626,027 | 1,076,278 |

Cash in Federal Reserve banks (June 25, 1920)

| | |
|-----------------------------------------------|------------|
| Gold coin and certificates (reserve) | 1,969,375 |
| Legal-tender notes, silver, etc. (reserve) .. | 139,230 |
| Grand Total | 3,184,983" |

It appears from this statement that all of the banks and trust companies of the United States only have \$76,000,000 of gold and gold certificates, and less than \$400,000,000 gold coin and certificates, silver coin and certificates, and legal tender and national bank notes, and nickels and cents. Mr. Williams shows on page 260 that the total deposits of the 30,139 banks and trust companies in the United States amount to \$37,683,563,000 on June 30, and they have only \$1,076,378,000 of cash to pay with. If all the banks were to liquidate they could pay only three cents on the dollar.

It is true that Federal Reserve Banks—not the member banks—have the right to apply to the Board for more currency, which the Board may reject or grant. Our real money has been retired from circulation and there has been substituted in place of it only the right of the Federal Reserve bank to apply for currency if it desires to do so, and has the collateral, which is subject to the right of the Board to refuse.

In order that the seriousness of the present situation may be better understood, I submit a table taken from Mr. Williams report, pages 260 and 261, showing the cash resources and deposits of all of the banks and trust companies of the United States at the end of each decade from 1870 to 1920, inclusive:

| Year | Cash on hand | Deposits |
|------|----------------|----------------|
| 1870 | \$ 155,700,000 | \$ 501,000,000 |
| 1880 | 274,300,000 | 1,951,000,000 |
| 1890 | 488,000,000 | 4,064,000,000 |
| 1900 | 749,900,000 | 7,239,000,000 |
| 1910 | 1,423,800,000 | 15,283,400,000 |
| 1920 | 1,076,400,000 | 37,683,600,000 |

Every year except 1920 the banks held a total of cash equal to about 10% of the total of their deposits. In 1920 their cash was less than 3%, a reduction of circulation in proportion to deposits of more than 300%. Bear in mind that the amount of the outstanding Federal reserve notes amounted to \$3,308,000,000, which is near the high water mark.

One Thousand Per Cent Deflation

Be it remembered also that the Board contended then, and contends now, that we then had an inflation of the currency which was approaching the danger mark, and that it was necessary to deflate it in order to prevent a catastrophe. According to their view but little additional currency could be safely issued at that time. We were so near the danger line that it was then imperative that steps be taken to reduce the volume of it and to build up the gold reserve.

Suppose that 5% of the bank depositors (in amount) had then decided to withdraw their money from the banks and to hoard it. What would have been the result, with the banks having only 3% of the amount in cash and the Federal Reserve banks strained to the breaking point, as they claim they were?

Remember, of this \$1,076,000,000 which the banks held for the payment of \$37,000,000,000, only \$400,000,000 was legal tender, the balance probably being Federal Reserve notes. Suppose that these depositors had

demanded, as they had the right to do, that they be paid in legal tender money.

The banks at that time only had slightly more than 1% of their deposits in legal tender money as against 10% in practically all of the preceding years of their history. This represents a reduction of legal tender money in proportion to deposits of 1000% under the operation of our benefic ent Federal Reserve system.

The Federal Reserve System places the volume of our currency, which measures the value of all of our property and of all of our products, absolutely in the power of a bankers machine whose chief interest is to maintain a high value for the dollar. Currency can not be issued unless it is applied for and the application can only be made by a Federal Reserve bank controlled by bankers. The application must be made to the Federal Reserve Board, which has full discretionary power to peremptorily grant or refuse, and which is likewise controlled by bankers.

Since the Board has assumed jurisdiction to regulate and control the supply of money, no one can now tell from their official reports how much money we now have in actual circulation. I doubt if any one knows except themselves and those who are co-operating with them to bring about deflation. They publish in the July issue, 1921, of the Federal Reserve Bulletin, page 885, the following table showing the amount of money that we are supposed to have on June 1st, 1921:

(See Table on page 68)

It will be noted from this table that we are supposed to have a total stock of more than \$8,000,000,000, or nearly \$80 per capita, and of this amount \$5,000,000,000, or \$46.43 per capita, is in circulation. Of this \$5,000,000,000 in circulation they claim \$2,700,000,000 are Federal Reserve notes, and the balance other moneys. This \$2,700,000,000 is \$700,000,000 less than the high water mark, \$100,000,000 less than the previous month, and it is now (Aug. 18, 1921) down to \$2,500,000,000, and continuing down at the rate of about \$100,000,000 per month.

It will be noted that according to this last report we

MONEY HELD OUTSIDE THE UNITED STATES TREASURY AND THE FEDERAL RESERVE SYSTEM, JUNE 1, 1921.

| | General stock | Held in the United States Treasury as assets of the Government.* | Held by or for Federal Reserve Banks of the agents. | Held outside United States Treasury and Federal Reserve System. | Amount per capita outside United States Reserve and Federal Reserve System. |
|-------------------------------------------|-----------------|------------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------------------|-----------------------------------------------------------------------------|
| Gold coin (including bullion in Treasury) | \$3,175,037,198 | \$431,427,816 | \$1,603,915,245 | \$461,362,538 | |
| Gold certificates | 284,142,326 | 19,677,121 | 47,680,447 | 205,651,152 | |
| Standard silver dollars | | | \$ 34,494,294 | 53,090,254 | |
| Silver certificates | | | 47,447,727,010 | 137,576,063 | |
| Subsidiary silver | | | | | |
| Treasury notes of 1890 | 346,681,016 | 12,256,294 | † 81,299,927 | 161,319,628 | |
| United States notes | 3,083,680,635 | 4,280,418 | 295,815,530 | 2,783,584,687 | |
| Federal Reserve notes | 172,474,400 | 4,287,796 | 32,114,409 | 147,972,195 | |
| Federal Reserve Bank notes | 740,593,359 | 17,498,871 | 3,546,055 | 719,548,433 | |
| National bank notes | | | | | |
| Total: | | | | | |
| June 1, 1921 | 8,073,737,233 | 499,236,987 | 2,562,692,917 | 5,011,807,329 | \$46,433 |
| Jan. 1, 1921 | 8,372,970,904 | 494,296,257 | 2,377,972,494 | 5,500,702,153 | 51,29 |
| July 1, 1920 | 7,887,181,586 | 485,057,472 | 2,021,271,614 | 5,280,852,500 | 50,19 |
| Jan. 1, 1920 | 7,961,320,139 | 604,888,833 | 2,044,426,303 | 5,312,009,003 | 49,81 |
| July 1, 1919 | 7,588,473,771 | 578,848,043 | 2,167,280,313 | 4,842,345,415 | 45,00 |
| Jan. 1, 1919 | 7,780,793,606 | 454,948,160 | 2,220,705,767 | 5,105,139,679 | 47,83 |
| July 1, 1918 | 6,742,225,784 | 356,124,750 | 2,018,361,825 | 4,367,739,209 | 41,31 |
| Jan. 1, 1918 | 6,256,198,271 | 277,043,358 | 1,723,570,291 | 4,255,584,622 | 40,63 |
| July 1, 1917 | 5,480,009,884 | 253,671,614 | 1,280,880,714 | 3,945,457,556 | 37,88 |

* Includes reserve funds held against issues of United States notes and Treasury notes of 1890 and redemption funds held against issues of national bank notes, Federal Reserve notes, and Federal Reserve Bank notes, but excludes gold and silver coin and bullion held in trust for the redemption of outstanding gold and silver certificates and Treasury notes of 1890.

† Exclusive of amounts held with United States Treasurer in gold redemption fund against Federal Reserve notes, but inclusive of balances in gold settlement fund standing to the credit of the Federal Reserve Banks and agents.

‡ Includes subsidiary silver.

§ Includes Treasury notes of 1890.

have in circulation outside of Federal Reserve notes about \$2,300,000,000, or about \$22 per capita of real, stable money. Where is this \$5,000,000,000? Approximately \$1,000,000,000 is in the vaults of the banks and trust companies. Where is the other \$4,000,000,000? Will any sane man argue that the people are hoarding \$4,000,000,000, or nearly \$40 per capita, that they have in their pockets and in their tills four times the amount of money that the banks have in their vaults?

One of two things is true: This statement of the amount of money in circulation is false, or else the deflationists are hiding this money themselves in some secret unknown way.

The Board's High Interest Rate Policy Is Contrary to the Law.

The Board has repeatedly announced officially through the press and otherwise that it is their policy to require the Federal Reserve Banks to charge higher discount rates than the market rate, for the purpose of discouraging banks from borrowing or discounting paper. In their 6th annual report covering the year 1919, the Board stated: "It was the Board's view also that as a rule the discount rates of the Federal Reserve Banks should be higher than current market rates, thus offering no incentive to member banks to rediscount for the sake of making a profit in the transaction." (See page 68.) This is not for the purpose of preventing the banks from making a profit on the transaction as they claim; the real purpose is to control credit and values. This is a plain usurpation of power, in direct conflict with the intent and purpose of the law.

In addition to providing currency and credit for emergencies, the law was intended as a general banking system for the purpose of affording agriculture, commerce and industry an ample supply of credit at reasonable rates of interest to meet its every day needs. It was not intended as only an emergency "bankers bank" as they interpret it to be.

The Board is now endeavoring to maintain higher rates than the banks; and the banks are endeavoring to

maintain higher rates than the Board. The result is that both are profiteering upon agriculture, industry and commerce at a time when they are losing money and are helpless. We are passing through an era of shameless high interest rates and usury, such as the world never before witnessed.

This policy operates also to contract the currency. Before Federal Reserve notes can be issued the Federal Reserve bank must deposit with the "local Federal Reserve agent, collateral in amount equal to the sum of the Federal Reserve notes thus applied for," which is in addition to the 40% gold reserve. It is plain that if the Federal Reserve banks have no collateral that they can not get currency; and it is equally plain that if the member banks do not discount their paper with them, they will not have much collateral.

Gold and silver have been our most important monies since our government was established. No one has ever yet publicly advocated retiring gold or any substantial part of it from circulation. The Federal Reserve law was not enacted for that purpose. Its purpose was to supply a currency that would afford "temporary relief in localities where needed."

It is the policy of the Board to retire money and substitute notes. They take our permanent money, our permanent basis of credit and of values, and give us only a board and banker controlled and manipulated currency. We have sold our birthright—or others have sold it for us—for a mess of pottage.

CHAPTER EIGHT

Congress Artfully Wheedled Into Enlargement of the Powers of the Board

The law has been amended at every session of congress since its enactment, usually for the purpose and with the effect of increasing the power and control of the board, and always at its request. Some of its most obnoxious provisions have been added by amendment; provisions that could not have been incorporated originally because they would have shown too clearly the centralized autocratic irresponsible power of the board. Two of these amendments will be later discussed. A complacent congress has always granted the additional powers without objection or discussion, and has never yet refused any request made of it by the board.

As it was enacted it was, in substance and effect, the Aldrich law; and as it stands today it is infinitely worse. There is the same board of control, but less representative and smaller, and therefore more easily manipulated; there is the same currency and credit scheme; the same essentials and largely the same details. It is in substance a central bank with 12 subordinate branches, having a central board of control in Washington, although in pretense it is otherwise. Its true character is clearly revealed by comparison with our system of government. If the acts of the legislature were subject to the "approval" or the "review and determination" of the President and his Cabinet or the Congress of the United States, we would instantly recognize in that fact a central government. They have enacted by stealth, subterfuge and treachery a financial system that no candidate for office and no political party ever dared advocate.

Reactionary Republicans All Voted for It.

President Wilson said in an interview given the press on the occasion of signing it: "It is gratifying to me that so many republicans have voted for this bill."

The old line republicans recognized their baby and they loved it, although it had been given another name and had been adopted by the democrats. **They were not deceived**, even if some of the democrats may have been.

The fact that almost every regular, old line republican was for the bill, and the fact that most of the progressives, led by Senator Borah, were against it, should in itself have aroused some suspicion. Instead of being so gratifying to the President, it should have caused his distrust.

President Wilson was not deceived. He knew the full intent and meaning of the bill; he knew that it was the Aldrich bill disguised to deceive the unwary. He and he alone had the power to put through any bill that he desired, for congress was overwhelmingly Democratic and he had the full confidence of the people. He deliberately chose the Aldrich system and deliberately forced upon the American people a financial system that they did not want and had repudiated, in perfidious violation of his every utterance on the subject, and of the platform pledge of his party. His was the power and his is the responsibility.

Congress Was Deceived.

The situation was such that no doubt many of the members of congress were deceived, as well as the people. The President was nominated following a great fight between Mr. Bryan as the leader of the progressive element of the party and Tammany and the Money Trust, which resulted in the apparent complete overthrow of the Morgan, Ryan, Belmont element. Mr. McAdoo, a member of the New York Tammany delegation, with a few other members of this delegation, supported Mr. Wilson from the beginning.

Mr. T. Cushing Daniel, in his book "Betrayal of the People", charges that this and the subsequent fight of the bankers against the bill were stage plays for the purpose of deceiving the people. There can be no question about its reality as far as Mr. Bryan was concerned. His honesty, like the chastity of Caesar's wife, is above suspicion. What ever may be thought about Mr. Bryan's

political views, no one doubts his sincerity and integrity. He is incapable of such deception and treachery.

The President, although prior to this time comparatively unknown, stood before congress and the American people as the champion against the Aldrich bill and all it meant. He stood before them with the powerful endorsement of Mr. Bryan, which carried with it great weight and confidence.

Besides this, the President was the leader of his party and his was largely the responsibility of directing party policies. The old banking system was admittedly bad, and it appeared that any change would be for the better. Many members of congress had never given the subject much thought. They looked to the leaders for guidance. Their opposition would have been unavailing and would at that time have been condemned as party treachery, and they knew it.

There are senators and ex-senators who still suffer in reputation for having opposed him. We are only now beginning to appreciate their opposition at its real value. He then had the confidence of the people as no president has had in recent years, except Mr. Roosevelt, and he knew it.

I make this explanation in justice to many members of congress, some of whom voted for the bill blindly, and upon faith,—some skeptically but in the belief that it could be later amended and improved, and some (I trust not many) knowing its real authorship, real character and real purpose. Charitable as I wish to be toward the members of congress, I must observe that these excuses do not apply to their support of the amendments that have been adopted since, for they were not then under party duress.

Mr. Henry's Testimony.

In a recent letter to me, Hon. R. L. Henry said:
"My dear Judge:

"Your letter of June 21st is before me and I am answering at once. In regard to the Federal Reserve Act and Mr. Paul Warburg, I can at this time state

a part of the facts. Paul M. Warburg and Samuel Untermyer, the great lawyer and financier, were intimate friends and associates, and were very close to Hon. Wm. G. McAdoo when the Federal Reserve Act was written. Frequently, I conversed with Untermyer about the legislation. I know he had much to do with shaping the Federal Reserve Act and was frequently in conference with Warburg. Having had many conferences about this law with the President, I know that he was thoroughly saturated with the views as outlined to me by Untermyer and McAdoo.

"After the Act was passed nothing could deter the President from appointing Warburg on the Federal Reserve Board. I talked with the President several times, and he had the same views as Untermyer and McAdoo, and of course, I presume, of Warburg, inasmuch as he promptly fitted him into the system after it was passed.

"I may add that the original drafts of the Federal Reserve bill from New York were exhibited to me when I was Chairman of the Committee on Rules, and that the birth place of the bill was in New York and not in Washington City.

"The original bill admittedly inhibited the rediscount of bills and notes based on agricultural and livestock transactions, but in connection with Representatives Eagle, Neely, Ragsdale and Wingo, and Senators Reed and Hitchcock, we pressed the fight until paper based upon agricultural and livestock transactions was recognized in the provisions rewritten in the House Caucus, and in the Senate Committee."

Paul M. Warburg's Testimony Before Senate Committee.

It is better for Mr. Warburg to tell his own story. There can be no question then about what he said he did. The President nominated Mr. Warburg as one of the directors of the board, and afterward appointed him as its first Governor. When his nomination came before the senate for confirmation he was examined touching his qualifications. The following is in part his testimony:

Senator Bristow: "When did you first become ac-

tive in promoting the monetary reform of the United States?"

Mr. Warburg: "1906."

Question: "Were you consulted in regard to the report of the Monetary Commission in any way?"

Mr. Warburg: "Yes, Senator Aldrich consulted with me about details and I gave my advice freely."

Question: "And in regard to the bill which was prepared by Senator Aldrich in connection with the commission, were you consulted in regard to that?"

Mr. Warburg: "Yes."

Question: "What part did you have in the preparation of that bill, directly, or indirectly?"

Mr. Warburg: "Well, only that I gave the best advice that I could give."

Question: "What did you think of the bill as a whole?"

Mr. Warburg: "I think, on the whole, the bill proceeded on fundamentally sound principles. As far as the idea of centralizing reserves and of creating discount markets was concerned, that is the same principle that our present, or, rather, it is the same object that our present bill achieves. I did not quite agree with the construction of it, but on the whole, so far as the fundamental ideas are concerned, I thought it was a good bill."

Question: "Yes. Do you think it was a better bill than the present law?"

Mr. Warburg: "No. I do not. In some respects I may prefer some features of that, and in other respects I think this is a better one."

Question: "What are the fundamental differences between the two?"

Mr. Warburg: "Well, the Aldrich bill brings the whole system into 1 unit while this deals with 12 units and unites them again into the Federal Reserve Board. It is a little bit complicated, which objection, however, can be overcome in an administrative way."

Question: "You think by administration that you could so organize the present system as to make it conform to the desirable features of the Aldrich bill so

far as centralization and control are concerned?"

Mr. Warburg: "I think so." (Senate Hearing Aug. 1 to 5, 1913.)

It appears from Mr. Warburg's testimony that he advised with Senator Aldrich "freely" regarding the Aldrich bill, which he thought a good bill and better in "some features" than "our present bill", but not quite so good on the whole. He thought that there was no "fundamental difference between the two" and such differences as did exist could be "overcome in an administrative way," and that he could so organize "our present system as to make it conform to the desirable features of the Aldrich bill, so far as centralization and control are concerned." He was given the job of perfecting it in an "administrative way" and of making it equal to the Aldrich bill "so far as centralization and control are concerned."

This is the testimony of the expert selected first by the Republicans, and then by the Democrats. He is credited with having written both bills. It should be conclusive on the question of their identity of character.

Warburg Is Given Credit for Law.

But I quote the further testimony of Prof. Seligman, published in a recent issue of Mr. Ford's "Dearborn Independent" under the title "The International Jew":

"Professor E. R. A. Seligman of Columbia University, is the sponsor of this great honor for Mr. Warburg. What Prof. Seligman says is of such importance, both as to its source and its subject, that quotation is justified:

"It is in a general way known to the public that Mr. Warburg was in some way connected with the passage of the Federal Reserve Act, and his appointment to his present responsible position on the Federal Reserve Board was acclaimed on all sides with a rare degree of approval and congratulation; but I fancy it is known only to a very few how great is the indebtedness of the United States to Mr. Warburg. For it may be stated without fear of contradiction that in its fundamental features the Federal Reserve act is the work of Mr.

Warburg more than of any other man in the country.

'When the Aldrich commission was appointed it was not long before Senator Aldrich—to his credit be it said—was won over by Mr. Warburg to the adoption of these two fundamental features. The Aldrich bill differed in some important particulars from the present law. . . . The concession in the shape of the 12 regional banks that had to be made for political reasons is, in the opinion of Mr. Warburg as well as of the writer of this introduction, a mistake; for it will probably, to some extent at least, weaken the good results which would otherwise have followed. **On the other hand, the existence of a Federal Reserve Board creates in everything but in name a real central bank,** and it depends largely upon the wisdom with which the board exercises its great powers as to whether we shall be able to secure most of the advantages of a central bank without any of its dangers

' . . . It must not be forgotten that Mr. Warburg had a practical object in view. In formulating his plans and in advancing slightly varying suggestions from time to time, it was incumbent on him to remember that the education of the country must be gradual and that a large part of the task was to break down prejudices and remove suspicions. His plans therefore contain all sorts of elaborate suggestions designed to guard the public against fancied dangers and to persuade the country that the general scheme was at all practicable. It was the hope of Mr. Warburg that with the lapse of time it might be possible to eliminate from the law not a few clauses which were inserted, largely at his suggestion, for educational purposes.

'The Federal Reserve Act will be associated in history with the name of Paul M. Warburg. . . .' (pp. 387-390, Vol. 4, No. 4, Proceedings of the Academy of Political Science, Columbia University.)"

CHAPTER NINE

Paul Warburg, An International Jew, Plays a Dominant Role

Mr. Warburg further testified before the Senate Committee that he came to America from Germany in 1906 and took out his naturalization papers in 1911; that he was the son-in-law of Mr. Loeb of Kuhn, Loeb & Co., and a partner in the firm. He was interrogated about a number of financial deals of this firm, their financing of railroads and the commissions paid them, and their interest in banks and trust companies, to which he generally replied that these questions related to the business of his firm and on that ground declined to answer them. He was asked the following questions:

"Senator Bristow: When a banking house like yours owns the stock of another bank, say the National City Bank of New York, and has directors in that bank, do you think it proper for your firm, when you are getting a commission for the sale, to sell that security to your own bank?

Mr. Warburg: I do not think it makes a bit of difference.

Senator Bristow: Do you think it was legitimate business for your firm to charge these excessive rates to these railroad companies for handling this business, when they were directors in the companies and were practically selling bonds as Kuhn, Loeb & Co., bankers, of the railroad companies which they controlled largely and collected commissions from both,—practically selling to themselves and exacting a commission?

Mr. Warburg: I told you in the beginning that I could not discuss the affairs of our firm."

The first governor and author of our financial system was a German-Jew, who had scarcely been in our country long enough to speak our language. His assistant, Mr. Untermyer, was likewise a Hebrew. Both of these gentlemen were residents of New York City,

which is in thought and aspiration an alien city; in fact more than 50% of its population are foreign born.

The residents of New York City, those who have spent their lives there, or migrated there from foreign countries, regard themselves as a superior people, and New York City as the hub of the universe. They look upon the balance of the country as provinces to be exploited and to be grafted upon.

Wall Street's Private Banking Methods are Monopolistic, Usurious and Grafting.

Mr. Warburg believed in the system of high finance as practiced in Wall Street, according to his testimony. He thought it legitimate to get control of banks and trust companies and railroads, and to use his position with the one to finance the other, and to charge both a rake-off. It is this usurious rake-off that is largely responsible for the high rates of railroads and other utilities, which now constitute such a large element in the cost of living. The people through their various commissions do not fix the rates of their utilities; the bankers fix them when they float the companies and put out the securities. The most of them have been financed by these Wall Street private banking concerns. They seldom go that route without being "watered" on the way.

This water represents the graft of the private banker. It is imposed on the public in the shape of securities of different sorts and then the lawyers make the plea of confiscation if the rates are not made high enough to pay interest on them.

This graft is constantly growing heavier and more burdensome, for there seems to be no end to human greed. These gentlemen work in close harmony, there is no competition among them and they are therefore able to fix the amount of the toll, which is always a plenty. It is 'take the money on our terms or let it alone', for there is no other place to get it. I doubt if it is possible to float a \$10,000,000 bond issue outside of the group that operate together in New York City.

How did it happen that Paul M. Warburg, a German-Jew, without knowledge of the country or its in-

stitutions, a Wall Street banker without actual legitimate banking experience, was selected to be the first governor of the board? How did it happen that President Wilson selected the same man to advise him about the character of the law that Senator Aldrich advised with? Is it possible that Mr. Warburg was the only man in the United States who understood the subject? Why did an alien German-Jew, an international banker, without experience or interest in our banking system, have such a consuming desire to reform it?

Wilson's Somersault.

Was Woodrow Wilson for the Aldrich bill from the beginning? Did he enter the race for the presidency with his "cap doffed" to Col. Harvey, the reputed mouthpiece of Morgan, who is credited with having discovered him, and whom he later repudiated? Did he approach our masters hat in hand, and ask and receive their blessing and support when he entered the race for the presidency? Did he make his race for the presidency upon the pretense that he was opposed to the Aldrich bill, when in truth and in fact he was for it? Did he select Mr. McAdoo as Secretary of the Treasury, as well as Mr. Warburg, because he was likewise acceptable to Wall Street? Were Mr. McAdoo's differences with the Street sham battles also?

If Mr. Wilson was not originally for the Aldrich bill, then when did he change? Was it before or after his nomination for the presidency? Was it before or after the law was adopted? Was it before or after he met Mr. Warburg; before or after his appointment as his financial adviser and as governor of the system?

It could not have been later than the last event, because Mr. Warburg then testified at a senate hearing, of which the President knew, that the two systems were in substance the same, and could be made identical by administration, and the President did not recall his appointment. He at least knew it while the bill was before congress, because he personally put the bill through congress with the assistance of Mr. McAdoo. He led the fight. He knew what the people wanted, and what Wall Street wanted; he had studied the banking

and currency question and he understood it. He knew every amendment that was offered and every change that was made. No man understands the meaning of the English language better; no man was more quick and alert mentally.

He knew when he signed the bill exactly what it meant. He knew it when he gave out to the press the interview on the occasion of signing it, saying that it was a magna charter for business, that it freed business from the domination of Wall Street, and that men might henceforth proceed with their enterprises with assurance and without fear. It was in fact a magna charter for Wall Street, and he knew it. Instead of freeing men, it enchain them in financial bondage to Wall Street, and he knew it.

Jewish Influence With Wilson, and Jewish Origin of the System.

The remarkable disclosures in the "International Jew," for which Mr. Henry Ford is responsible, throw a flood of light upon the subject. I may state parenthetically that Mr. Ford represents the highest type of the American business man and citizen. He is just in his dealings with his employees and with the public. He is a man of courage, of broad vision, and of lofty ideals. He was also a former friend of President Wilson. In his revelations in the "Dearborn Independent" he is performing a service alike to Jew and Gentile. The great mass of Jews have no more to do with the ambitious designs of their buccaneers of Wall Street than we have with ours, and they are no more responsible for their criminals than we are for ours, unless they choose to be ruled by them. There is an important difference, however, in the attitude of the Jew and the Gentile toward these slick, crafty, criminals of high finance. The Jew is proud of the achievements of the members of his race, regardless of the methods and practices by which they succeed; the Gentile wants the criminal punished regardless of race or religion.

It appears from the "International Jew" that the Jews now control the press, the theaters, and other industries of New York City; that they constitute about

1,500,000 of its population; that the Jewish Kehillah controls the government and politics of the city; that they control the immigration policy and administration of the U. S. Government; and that they are organized politically and financially for the purpose of controlling New York, and through it the United States.

This may account for the alien character of New York City. It may also account for the appointment and resignation of Mr. McAdoo. Mr. McAdoo was a member of the Morgan-Ryan-Belmont delegation to the Baltimore convention, and was then comparatively unknown to the country. He resigned the office of Secretary of the Treasury, Director General of the Railroads, and Chairman of the Federal Reserve Board, in the period of readjustment and the time of greatest need, to accept, according to press reports, a salary of \$100,000 as attorney for a theatrical company, and to also enter the practice of law in New York City. I quote from the "International Jew":

* * * *

The Reign of the Jew.

"In our own country we have just had a four-year term of Jewish rule, almost as absolute as that which exists in Russia. This appears to be a very strong statement, but it is somewhat milder than the facts warrant. And the facts themselves are not of hearsay origin, nor the product of a biased point of view; they are the fruits of an inquiry by the lawful officials of the United States who were set aside in favor of the ready-made Jewish Government, and they are forever spread upon the official records of the United States.

"There was no elected member of the United States Government who was closer, or even as close, to the President during the war as was this Jew out of Wall Street. No one whom the people sent to represent them at Washington ever came within leagues of the privileges accorded to Mr. Baruch. Plainly this is an unusual situation, not explainable by the emergency at all, certainly not explainable by anything that is as yet a matter of public knowledge.

"The Jews, a political minority so far as votes are

concerned, were a political majority so far as influence was concerned, during the last five years. They boast that they ruled. The mark of their rule is everywhere.

"Now, in the United States during the last five years we have seen an almost complete Judaized administration in control of all the war activities of the American people. The function of the regularly organized United States Government during that time was practically confined to the voting of money. But the administration of the business end of the war was in charge of a government within a government, and this inner, extra government was Jewish.

"The puzzling spectacle which the observer sees of the great leaders of Anglo-Saxon races closely surrounded and continuously guided by the princes of the Semitic race, is explained only by a knowledge of those leaders' "past" and those words of the Protocols: 'We will manipulate the election of Presidents whose past contains some undisclosed dark affair.'

"We will manipulate the election of Presidents whose past contains some undisclosed dark affair, some "Panama", then they will be faithful executors of our orders from fear of exposure and from the natural desire of every man who has attained a position of authority to retain the privileges, emoluments and the dignity associated with the position of President.' The use of the word 'Panama' here refers to the various scandals which arose in French political circles over the original efforts to construct the Panama Canal."

* * * *

Deeds Speak Their Motives

Personally, I have no information about ex-President Wilson's past. Until recently I have had confidence in his sincerity of purpose and idealism. Although disagreeing for some years with his policies, my disillusionment as to his real character has been slow. Indeed, it was a shock to my faith to discover his duplicity in connection with this law.

I refrain from a discussion of ex-President Wilson's motives, partially because there is no official record by which they can be proven, partially because they are

now in a measure unimportant, and partially for personal reasons. I prefer to confine this discussion to the facts as established by his public record while in office or seeking office, and to the necessary deductions based upon these established facts. There is always more or less of conjecture about men's motives, for they do not always admit the truth of them, even to themselves.

The responsibility of Mr. McAdoo and Mr. Warburg is different from that of ex-President Wilson. They are both culpable to the extent only that they, or either of them, practiced deception and disregarded the party platform. Otherwise they had the right to be for the Aldrich bill. They were no doubt selected for their respective positions because they were for it. If it had not been them, it would have been others with the same views and to accomplish the same purposes.

Mr. Warburg Was a Representative of the Money Trust.

A short time prior to the election of President Wilson, a congressional committee undertook to investigate the Money Trust. The work was not completed on account of the intervention of President Taft. The committee took a great deal of evidence and made considerable progress before their work was stopped. They reported in part as follows:

“We find from the testimony that the most active agents in forwarding and bringing about the concentration of control of money and credit through one or another of the processes above described have been and are J. P. Morgan & Co., First National Bank of New York, the National City Bank of New York, Kidder, Peabody & Co., of Boston, Lee Higginson & Co., and Kuhn, Loeb & Co., of New York.”

It will be noted that of the six institutions constituting the “Money Trust” four of them are private bankers and one of the four is the Jewish firm of Kuhn, Loeb & Co. Messrs. Warburg and Untermyer were perhaps the nominees of this combination,—the Money Trust,—to look after this bill, rather than the selection of either Senator Aldrich or President Wilson. Five of the six firms constituting the “Money Trust” are ostensibly Gentile.

While the Federal Reserve law is indisputably of Jewish origin, it is not just to place the whole responsibility for this betrayal of the people upon the Jew, no matter what the Jewish hand may have done or the Jewish ambition may have designed. The law was enacted by a Gentile President, and a Gentile congress. It is the work of the Gentile Woodrow Wilson, ably assisted by the Gentile Wm. G. McAdoo.

Princes of the House of Gold.

The Jew is the world's private banker. He has always largely controlled the world's supply of gold. In addition to the private banking firm of Kuhn, Loeb & Co., there are a number of other important private banking houses in New York City, with foreign branches or connections. I mention only a few from memory, viz: Strauss & Co., J. & W. Seeligman, Goldman, Saks & Co., Hallgarten & Co., Speyer & Co.

The ebb and flow of gold, which is an important factor in determining the exchange values of money, is largely controlled by the private international bankers, who deal in foreign bills of exchange. This gives them the privilege of either establishing a foreign credit, or receiving gold or goods in payment. They are the importers and exporters of gold. They are money dealers, or in the language of the Scriptures, "money changers".

The money value of the products imported into a country deducted from the money value of the products exported, or vice versa, determines the trade balance in favor of, or against such country. This trade balance is in fact in favor of the banker holding the foreign bill of exchange and against the bank that has accepted it, and thereby guaranteed the account of the importer. The international bankers who own and owe these foreign bills determine the manner, time and method of paying them. They therefore, have great power in controlling the volume of gold in all of the countries of the world, and of determining the exchange values of the moneys of all countries.

The Invisible Empire of Gold.

The "Invisible Empire" of Money that now rules us is ambitious to rule the world. With our country as the base of its operations, it is determined to re-establish the gold standard throughout the world. Unless it is overthrown here, it may succeed because of the necessities of the governments and peoples of other countries. Disastrous as their work has been here, it will be infinitely worse in the impoverished and helpless countries of Europe. The human imagination can not estimate the wreck and ruin that is certain to follow the deflation of European currencies and the re-establishment of gold.

I quote again from the 'International Jew':

"The criticism, insofar as it respects the more important financiers, is not racial at all. Unfortunately the element of race, which so easily lends itself to misinterpretation as racial prejudice, is injected into the question by the mere fact that the chain of international finance as it is traced around the world discloses at every link a Jewish capitalist, financial family, or a Jewish-controlled banking system. Many have professed to see in this circumstance a conscious organization of Jewish power for Gentile control, while others have attributed the circumstance to Jewish racial sympathies, to the continuity of their family affairs down the line of descent, and to the increase of collateral branches. In the old Scriptural phrase, Israel grows as the vine grows, ever shooting out new branches and deepening old roots, but always part of the one vine.

"There is apparently in the world today a central financial force which is playing a vast and closely organized game, with the world for its table and universal control for its stakes. The people of civilized countries have lost all confidence in the explanation that "economic conditions" are responsible for all the changes that occur. Under the camouflage of "economic law" a great many phenomena have been accounted for which were not due to any law whatever except the law of the selfish human will as operated by a few men who have the purpose and the power to work on a wide scale with nations as their vassals.

"Whatever else may be national, no one today believes that finance is national. Finance is international. Nobody today believes that international finance is in any way competitive. There are some independent banking houses, but few strong independent ones. The great masters, the few whose minds see clearly the entire play of the plan, control numerous banking houses and trust companies, and one is used for this while

another is used for that, but there is no disharmony between them, no correction of each other's methods, no competition in the interests of the business world. There is as much unity of policy between the principal banking houses of every country as there is between the various branches of the United States Post Office—and for the same reason, namely, they are all operated from the same source and for the same purpose.

"Labor has heretofore thought that capital was the sky over it, and it made the sky yield, but behold, there was yet an higher sky which neither capital nor labor had seen in their struggles one with another. That sky is so far unyielding.

"The employer is not the capitalist. Oh, no. He is not the capitalist in the real sense. Why, he himself must go to capitalists for the money with which to finance his plans. There is a power yet above him—a power which treats him far more callously and holds him in a more ruthless hand than he would ever dare display to labor. That, indeed, is one of the tragedies of these times, that "labor" and "capital" are fighting each other, when the conditions against which each one of them protests, and from which each one of them suffers, is not within their power to remedy at all, unless they find a way to wrest world control from that group of international financiers who create and control both these conditions.

"And now the two forces, Industry and Finance, are in a struggle to see whether Finance is again to become the master, or creative Industry. This is one of the elements which is bringing the Jewish Question to the bar of public opinion."

CHAPTER TEN

An Examination of Certain Contentions Made By Gov. W. P. G. Harding

Hon. W. P. G. Harding, a banker of Birmingham, Ala., and a protege of Hon. Oscar Underwood, was appointed by President Wilson as one of the original members of the Federal Reserve Board representing the southern "division" of the country. On the retirement of Mr. Warburg President Wilson appointed him as Governor of the system. Mr. Warburg made considerable progress in developing the system as a central bank of autocratic power during his brief tenure of office. He left the work to be completed by his successor, whom, no doubt, he and his friends and associates approved as being worthy and well qualified.

An Orator With a Forward Look.

Gov. Harding's appointment as a member of the board was not thrust upon him. He was not impressed into the public service. The office did not seek him; he actively sought it. He took a very prominent part in the effort to finance cotton which was in a distressed condition just prior to the time of his appointment in 1914. He attended all of the conventions and conferences that were held for that purpose about that time, including the Governors' conference at New Orleans, and manifested very great interest in the subject. He always managed to get on the program to make a speech.

Although unknown outside of his own community prior to this campaign, which was given considerable publicity, he managed in a very short time to establish himself in the public mind as a leading and forward looking southern banker, who appeared to be deeply interested in the problems of agriculture. His appointment as a member of the board was therefore greeted with

great satisfaction by the press, the bankers, and the public.

I quote liberally from the official reports of Gov. Harding because these reports tell one story and his testimony before congressional committees and his speeches and interviews tell quite another. There is absolutely no resemblance between them. If the record speaks the truth, his explanations are all false, and knowingly false.

He has denied that his board brought about deflation. He has contended that this panic was the result of a "buyers strike" and of financial and economic conditions in Europe and other countries, and not of anything done by the board. He has argued that whatever action was taken by the Board (he denied doing anything until the record was produced) was necessary in order to protect the gold reserve and in order to prevent a threatening panic.

It is my earnest desire to confine my discussion of men, their character and their motives and their deeds, to their official records. I shall not travel beyond the record, and shall not consciously state any conclusion that the record does not warrant. No one should challenge the character, or question the purpose of the rulers of the land, and almost of the universe, without the clearest and most convincing proof. They are presumed to be men of high character and of strict integrity, and to have discharged their official duties conscientiously, and in the public interest. This presumption should prevail and should be conclusive unless it is shown clearly that they have done otherwise.

There is no stronger and more convincing evidence than a man's own words, particularly when they are solemnly and deliberately uttered, or written in official reports. I shall offer Gov. Harding's signed reports, carefully prepared when there was no reason to state anything other than the truth, so that the reader may judge whether I correctly interpret them. I shall confine the discussion largely to the purpose and objects that he officially admitted that he and his board sought to accomplish.

One Eye on the Future.

The Federal Reserve Board stated in its 6th annual report to congress covering its operations for the year 1919, page 58:

“That part of section 10 which made members of the board ineligible to hold office, position, or employment in a member bank during the time they are in office and for two years thereafter, was amended so as to provide in substance that no appointive member shall be thus ineligible after completing his full term of office.”

The intent of congress and the wholesomeness of the original provision are apparent. We have had so many of our treasurers and comptrollers and their assistants step from office into high salaried position with big banks and trust companies that these high government positions have come to be regarded as stepping stones to fat bank jobs. There was suspicion on the part of congress and the public that some of these distinguished office holders sought to attract the favorable notice of big banks. It was considered sound public policy to remove the temptation.

If the members of this board, all of whom are “appointive,” are salaried men, dependent upon their salaries for a living, and must have a bank job at the expiration of their term of office, they are not representative of the industrial, and commercial interests of the country; if they thirst for the power the wealth and the prestige of high finance, they are not desirable representatives. If they did not want the office with the limitations as prescribed by congress, they should not have accepted it. The public through its congressional representatives did not suggest or seek this change of the law. It was sought by the board in their own personal interest.

Reaching Out for Control of Credits.

The board asked for the further amendment to the law in this same report (see page 72):

“The board, therefore, recommends to congress that an additional power be granted it, by adding to sub-

division (d), section 14, a proviso that each Federal Reserve Bank may, with the approval of the Federal Reserve Board, determine by uniform rule, applicable to all its member banks alike, the normal maximum rediscount line of each member bank and that it may submit for the review and determination of the Federal Reserve Board graduated rates on an ascending scale to apply equally and ratably to all its member banks rediscounting amounts in excess of the normal line so determined. In this way, in the opinion of the board, it would be possible to reduce excessive borrowings of member banks and to induce them to hold their own large borrowers in check without raising the basic rate. The Federal Reserve Banks would thus be provided with an effective method of dealing with credit expansion more nearly at the source than is now practicable and without unnecessary hardship to banks and borrowers who are conducting their affairs within the bounds of moderation."

Observe the language "**an additional power be granted it,**"— not the Federal Reserve Banks. In accordance with the recommendation of the board congress on April 13, 1920, adopted the following amendment:

"To establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal Reserve Bank for each class of paper, which shall be fixed with the view of accommodating commerce and business and which, subject to the approval, review and determination of the Federal Reserve Board, may be graduated or progressed on the basis of the amount of the advances and discount accommodations extended by the Federal Reserve Bank to the borrowing bank."

This amendment perverted the original intent and purpose of the law. It changed it from a system that would furnish liberal credits as required and in response to the demand made upon the member banks, to a controlled system, the expansiveness and elasticity of which depended on the wisdom, caprice or design of the Federal Reserve Board. It made the system the master of commerce and industry instead of its servant, as it was intended to be.

The primary purpose of the law was to provide a cheap and abundant supply of both currency and credit for commerce and agriculture. It was never intended to create a national board with power to control and restrict either currency or credit; or with power to regulate the values of money, wages, or commodities. Congress could not under the constitution grant any such powers to the board, nor did it knowingly do so.

Prior to the adoption of this amendment it was the duty of a Federal Reserve bank to discount all paper offered it by its member banks which met the requirements of the law without discrimination. There was no limit on the member bank's right to discount except the amount of the commercial and agricultural paper that it held.

The banks of the country felt safe in extending accommodations to agriculture and commerce because they thought there was a ready market for such paper in case they needed currency or credit. It was a shock to them, as well as to the country, to find that this had been changed, and the change was a great hardship to many of them who had extended credits liberally in ignorance of the change and of the limitations and advanced rates that were afterwards imposed by the Federal Reserve banks.

This amendment perfected their control. They had complete control over currency from the beginning; this gave them control over credit also. No bank now has the right to either currency or credit. It can discount only so much of its paper as the Federal Reserve banks are willing to take. It has knowledge that its credit is limited and that it may be further limited by a Bureau at Washington without notice. As a matter of prudence it will not use its credit liberally, but will leave it unused for emergencies. With this amendment in force the banks do not now, nor will they ever, liberally extend credit to commerce and industry.

Putting the Screws to Agriculture.

In their 7th annual report to congress covering the year 1920, (page 58) the board made the following report of the action taken under this law:

"Following the amendment of section 14 of the Federal Reserve Act, approved April 13, 1920, permitting the Federal Reserve Banks, with the approval of the board, to establish graduated rates of discount, the banks located at Kansas City, Dallas, St. Louis, and Atlanta, established progressive rates of discount, effective April 19, May 21, May 26, and May 31, respectively. The progressive rates are assessed against amounts discounted for member banks in excess of their "basic" or "normal" lines, the latter being determined by the Federal Reserve Bank uniformly for each member bank in the district. In the case of the Atlanta, St. Louis, and Kansas City banks the basic line adopted was $2\frac{1}{2}$ times a sum equal to 65 per cent of the reserve balance maintained or required to be maintained by the member bank, plus its paid-in subscription to the capital stock of the Federal Reserve Bank, while in the case of the Dallas bank the basic line was fixed at an amount equal to the combined capital and surplus of each member bank. Under the progressive rate plan, discounts granted in excess of the basic lines are subject to one-half per cent progressive rate, in addition to the normal rate, for each 25 per cent by which the amount of accommodation extended to the bank exceeds its basic line, although certain exemptions in the case of paper secured by Government obligations are allowed."

It will be noted that the progressive rate was only adopted in the banks serving the agricultural sections of the country, and that it was put in force in all of the Federal Reserve banks that handle any considerable amount of agricultural paper, except Richmond and Minneapolis. I call attention to this fact because the board claims in this same report (pages 16 to 18) that it favored agriculture. Gov. Harding has made the same claim in many of his published speeches and interviews.

I shall briefly discuss this ridiculously false claim, for it throws a flood of light on the character of the man, and sheds some light on the modus operandi of the system. It appears from the testimony of former Comptroller John Skelton Williams, given before the Congressional Agricultural Commission, on Aug. 2nd and

3rd, 1921, in the presence of Gov. Harding, that on Aug. 30, 1920, the Atlanta Federal Reserve Bank made application to the board to discontinue the graduated discount rate which the board, on Aug. 31st, unanimously refused.

Here we have the central bank directing the operation of its branch against the judgment and the wish of the local board. What more could a central bank do? If the board has the power to direct the bank regarding its discount policy and interest rates against the judgment of the local board of directors of the bank, then what is the limitation of the board's power, and what authority has the local board? This fully confirms my construction of the law in Chapter 3.

In its annual report to congress covering the year 1920, on pages 15 to 18, the board said: "In response to the inquiry made by the senate committee, the board called for reports from Federal Reserve Banks, and the figures which are submitted in the subjoined table show conclusively that instead of there having been curtailment in agricultural credits extended by the Federal Reserve Banks during the year 1920, the volume of such credits was nearly three times as great as the volume so extended during the year 1919."

"Estimated amounts of paper rediscounted with Federal Reserve Banks on production and sales of farm products.

| Federal Reserve Bank | 1919 | 1920 |
|---------------------------------|----------------------|------------------------|
| Boston | \$2,642,000 | \$4,979,000 |
| New York (No data) | | |
| Philadelphia | 2,971,000 | 3,580,000 |
| Cleveland | 612,000 | 1,753,000 |
| Richmond | 102,000,000 | 325,000,000 |
| Atlanta | 91,300,000 | 230,000,000 |
| Chicago | 47,263,000 | 128,408,000 |
| St. Louis | 220,000,000 | 665,000,000 |
| Minneapolis | 75,000,000 | 225,000,000 |
| Kansas City | 123,481,000 | 229,432,000 |
| Dallas | 28,997,000 | 44,911,000 |
| San Francisco | 35,000,000 | 122,000,000 |
| | | |
| Total for 11 Banks | \$729,266,000 | \$1,980,063,000 |

"There is also submitted below a table prepared from figures which have been published monthly in the Federal Reserve Bulletin showing the holdings of each Federal Reserve Bank on the last Friday in each month during the year 1920 of paper classed by the Federal Reserve Banks as "Agricultural and live-stock paper."

(In thousands of dollars)

| Date | | | | 1920 | Total of all F.R. Banks |
|--------------|-----------|----------|--------|---------|----------------------------|
| | St. Louis | Richmond | Dallas | | |
| 1920 | | | | | |
| January | 295 | 369 | 4,637 | 56,905 | |
| February ... | 389 | 533 | 4,833 | 67,195 | |
| March | 676 | 689 | 6,165 | 74,665 | |
| April | 2,559 | 1,317 | 11,587 | 106,372 | |
| May | 3,384 | 2,646 | 16,242 | 140,691 | |
| June | 4,255 | 4,581 | 22,098 | 168,038 | |
| July | 5,818 | 7,887 | 28,552 | 202,520 | |
| August | 5,738 | 9,273 | 29,502 | 216,278 | |
| September .. | 6,618 | 10,091 | 31,711 | 224,424 | |
| October | 8,063 | 9,392 | 30,331 | 240,649 | |
| November ... | 5,864 | 8,481 | 28,647 | 245,599 | |
| December ... | 4,896 | 9,251 | 31,251 | 246,938 | |

It will be noted from the above table that the St. Louis bank carried an average of \$2,000,000.00 of agricultural paper during the six months from Jan. 1st to June 30th inclusive, and an average of \$6,000,000.00 during the six months from June 30th to Dec. 30th inclusive. If this was six months paper it is clear that the amount discounted by the St. Louis bank during the year 1920 would be about \$8,000,000; if it was an average of ninety day paper it would be about \$16,000,000.

Figures Sometimes Lie.

Under no circumstances could it be \$665,000,000 as shown in the first table above. It is simply impossible. It is not a clerical error or a mistake. It is a carefully prepared misrepresentation of the truth. An analysis of the Richmond figures will show the same exaggeration though not so gross. The figures of the Dallas bank are no doubt correct. They are submitted for the purpose of showing that a correct statement can be made,

and for comparison. The Dallas bank, which carried a monthly average of \$20,000,000 of agricultural paper, is credited with having discounted a total of \$44,911,000 during the year; St. Louis, which carried a monthly average of \$4,000,000 is credited with \$665,000,000.

The total of all agricultural paper, including live-stock and dairy paper, held by all of the Federal Reserve Banks shows a monthly average of \$166,665,000, which indicates that the total amount of this class of paper discounted by all of the Federal Reserve Banks amounted to about \$400,000,000 instead of \$1,980,063,000 as claimed and as shown in the first table above. It is almost beyond belief, that a Board with all sorts of statisticians, arithmathicians, financial and other kinds of experts, and with common self respect, would submit such a glaringly and grossly false official report. It must have presumed upon the fact that the members of congress would not read it.

I call attention to the fact that the totals show that the highest amount of agricultural loans, including live-stock and dairy paper, ever held at one time by the Federal Reserve Banks was the sum of \$246,938,000, which was on Dec. 30, 1920. On that date their total loans amounted to \$3,313,502,000 as shown on page 103 of the same report, of which less than 8 per cent was for agricultural purposes, including live-stock and dairying. Their average loans during the year, according to this report, amounted to \$3,242,684,000, of which about 5 per cent was about the average for agricultural purposes, including live-stock and dairying. ..

John Skelton Williams Turns on the Calcium.

Mr. John Skelton Williams submitted the Joint Agricultural Commission an analysis of agricultural paper discounted by all of the Federal Reserve Banks during the year 1920, made up from the Board's reports published in the Federal Reserve Bulletins, which gives substantially the same results. It appears from the testimony of Gov. Harding that they class all paper having a maturity date of more than 90 days as agricultural paper, and that the reports that both Mr. Williams and I quote from are made up on that basis.

Mr. Williams testified as follows:

"I will now read from page 18 of Gov. Harding's testimony before the Banking and Currency Committee on June 1, 1920:

'Mr. Wingo. Do you contend it is a fact that the farmers this year have bigger credits than last year?

Gov. Harding. I do.

Mr. Wingo. Does not that indicate that last year when we were facing this extraordinary situation, you granted less credit than you admit now the farmers were entitled to?

Gov. Harding. No; it does not. The Joint Committee on Agriculture wanted to know about this and we looked it up. The credit is always bigger than we can prove, because all we claim as agricultural and live-stock credits are the credits over 90 days. Now I have that in my head very clearly. In 1920, up to the 14th of December, the 12 Federal Reserve Banks had discounted \$1,981,000,000 of agricultural and live-stock paper—known to be such because it had a maturity date longer than 90 days—as against \$721,000,000 in the year 1919, which does not show any curtailment of farm credits.'

"I now submit a table showing the total amount of bills discounted and acceptances bought by each Federal Reserve Bank, in even thousands, during the years 1919 and 1920, having 'a maturity date of over 90 days'. These figures are given by quarters. The total, according to these figures, for the year 1920 would be \$351,884,000 and for 1919, \$125,717,000.

"Please note that it appears from these figures—as to the reliability of which I can only say that they came from the Federal Reserve Bulletin; I have no means of checking them otherwise—that the total amount of paper appears to have been \$351,000,000 for 1920.

"The total amount of bills discounted and acceptances bought by each Federal Reserve Bank for the years 1919 and 1920 shows, for the year 1920, of all paper discounted and acceptances bought, \$88,535,000. That is the total of all paper bought and accept-

ances discounted, as compared with \$351,000,000 of agricultural and cattle paper.

(The last two tables submitted by Mr. Williams are here printed in full as follows:)

“Amount of bills discounted and acceptances bought by each Federal Reserve Bank (in even thousands) during the years 1919 and 1920, having a maturity of over 90 days.

| | 1920 | 1919 |
|--------------------------------|---------------|--------------|
| Three months ending March 31 | \$ 41,596,000 | \$26,726,000 |
| Three months ending June 30.. | 123,479,000 | 46,098,000 |
| Three months ending Sept. 30.. | 80,628,000 | 19,005,000 |
| Three months ending Dec. 31... | 106,181,000 | 33,888,000 |
| | <hr/> | <hr/> |
| | \$351,884,000 | 125,717,000 |

“Total amount of bills discounted and acceptances bought by each Federal Reserve Bank during the years 1920 and 1919.

| | 1920 | 1919 |
|------------------------------------------------------------|------------------|------------------|
| January, February, March, (p. 531, Bulletin 1920)... | \$20,635,000,000 | \$16,941,000,000 |
| April, May, June, (p. 871, Bulletin 1920) | 19,509,000,000 | 20,196,000,000 |
| July, August, September, (p. 1232 Bulletin 1920) ... | 22,733,000,000 | 21,018,000,000 |
| October, November, December, (p. 234, Bulletin 1921)... | 25,658,000,000 | 23,842,000,000 |
| | <hr/> | <hr/> |
| | \$88,535,000,000 | \$81,997,000,000 |

“If the \$230,000,000 of agricultural and cattle paper which Gov. Harding referred so frequently to in his testimony on June 1 is any index at all of the total amount of money advanced to agriculturists and cattle raisers by the banks of the country, there is abundant ground for their lamentable complaints of discrimination and contraction. The total of \$230,000,000 which he boasts that the Reserve banks were lending a month or two ago on “agricultural” and “cattle paper” was about what this country spent in five days for war purposes during the latter part of 1918, and is less than our peo-

ple paid in taxes on an average of every three weeks last year.

"The Congressional Record of Monday, July 25, 1921, tells us that the value of all farm property in the United States in 1920 was over \$77,000,000,000 including live stock valued at about eight billions, farm implements and machinery at more than three and a half billion. The value of our farm products is estimated anywhere from ten to twenty billion dollars per annum. These figures show how pitifully small by comparison is the amount doled out on 'agricultural and cattle paper' by the Federal Reserve System, whose total loans and discounts at the beginning of this year amounted to approximately \$3,000,000,000, or more than 12 times as much as the maximum amount of 'agricultural' and 'livestock' paper ever held by all the Federal Reserve Banks at any time, as shown by the Federal Reserve official bulletin." (See Hearing before Joint Commission of Agricultural Inquiry, 67th Congress, part 13, pages 83 to 86, inclusive).

Please observe that the total volume of paper having a maturity date of more than 90 days, and therefore classed as agricultural paper, is only one-half of one per cent of the total volume of credits extended, or paper discounted during the year; it represents only about the amount of the interest received on the other discounts and loans of the Federal Reserve system. The total volume of credit extended for the entire year 1920 by the Federal Reserve System to our greatest national industry during the period of its greatest need, counting all loans exceeding 90 days in length as being for its benefit, is less than 30 days' expense of the National Government at this time.

A Juggler With Facts.

Gov. Harding was present at the time Mr. Williams gave this testimony; he took the witness stand immediately afterward and spent two days in it; his testimony covers 178 pages of closely printed matter, and there is not a word in it of denial, explanation or qualification of Mr. Williams' testimony, or of his own previous testimony on this subject. Please bear in mind that he

testified before another committee that the reserve banks had extended \$1,981,000,000 of agricultural credits during the year 1920, and that he had made this same false statement in his official reports covering the operations of the banks for the year 1920, and that he had twice toured the south and west and made the same statements in practically all of his speeches; and yet confronted face to face with the actual figures he does not even refer to the matter. (See his testimony, same reports, pages 269 to 446).

Men often make exaggerated statements on the spur of the moment in a speech, and some times even on the witness stand. When honorable men find that they have made a false or exaggerated statement, they are always glad of the opportunity to make a correction. There can be no question but that Gov. Harding made an inaccurate statement in his official report, and repeated it in his speeches and on the witness stand; he had the opportunity covering a period of two days to make some sort of explanation or correction of it, which he did not make; and he reserved the privilege, which the Commission granted him, to go before it and give further testimony, which he did not exercise. We are accustomed, and justly so, to accept the official reports, even of our subordinate officers, as being the last word in accuracy and verity. What manner of man, may I ask, is this that we have at the head of our banking system?

Feeding the Big Cities.

Mr. Williams further testified on this subject as follows: (this was also not controverted by Gov. Harding):

"The total loans and discounts for the three central reserve cities of Chicago, New York and St. Louis, as of the date mentioned, amounted to \$3,695,000,000, showing that an amount equal to 24 per cent of them was rediscounted or borrowed. The total assets, exclusive of rediscounts, were \$5,471,000,000, the ratio of borrowed money being 16 per cent of their assets, excluding rediscounts.

"In the 'country' banks the rediscounts and bills payable were \$596,000,000, out of a total of loans and

discounts of \$5,853,000,000, or 10 per cent; the total assets exclusive of rediscosnts were \$9,958,000,000 in the country-banks, the ratio of borrowed money to total assets being 6 per cent.

"On September 12, 1919, the national banks in the three central reserve cities of New York, Chicago, and St. Louis held \$497,000,000 of rediscosnts and bills payable and the country banks \$437,000,000; the loans and discounts of the three central reserve cities of New York, Chicago, and St. Louis, were \$3,144,000,000, rediscosnts and bills payable being 16 per cent of total loans, excluding rediscosnts. The country banks had in loans and discounts \$4,759,000,000, the amount of rediscosnts and bills payable being only 9 per cent of total loans and discounts.

"Of these rediscosnts and bills payable, I should estimate about 90 per cent were gotten from the Federal Reserve Banks. This statement shows that in the autumn of 1920, although the 'country' national banks were carrying \$2,158,000,000 more of loans and discounts than the national banks of New York, Chicago and St. Louis, yet the banks in the three big cities were being accommodated, principally by the Federal Reserve Banks, with \$300,000,000 more than the country banks which had become so heavily loaded in their efforts to care for their communities. Mr. Chairman, may I insert the tabluation in the record?"

"The Chairman: Without objection, it may go in. (The tabluation referred to is as follows:)

Statement showing the borrowings, by rediscosnts and bills payable, of the national banks in New York Chicago and St. Louis, as compared with the borrowings of the 'country' national banks for Sept. 8, 1920, and Sept. 12, 1919.

(Report of Comptroller of the Currency for 1920,
p. 222, Vol. 1.)

(In millions)

| | Redis- counts and bills payable | Total loans and discounts. (Nearly all with F. R. Banks). | Total assets exclusive of redis- counts | Ratio of redis- counts and bills payable to total assets. | Per cent |
|-------------------------------------------------------------------|------------------------------------------|--------------------------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------------------------------|----------|
| Sept. 8, 1920: | | | | | |
| Central reserve cities (New York, Chicago, St. Louis) | \$896 | \$3,695,—24% | rediscounted | \$5,471 | 16 |
| Country banks | 596 | 5,853,—10% | rediscounted | 9,958 | 6 |
| Sept. 12, 1919: | | | | | |
| Central reserve cities (New York, Chicago, St. Louis) | 497 | 3,144,—16% | rediscounted | 5,695 | 8.7 |
| Country banks | 437 | 4,759,— 9% | rediscounted | 9,167 | 4.7 |

"Briefly, the official figures tell us that four banking institutions in New York City, at the time of the

last call, were borrowing from the Reserve System an average of over \$118,000,000 each—or practically as much money as the Federal Reserve banks of St. Louis, Kansas City, Minneapolis, Dallas, and Richmond, all combined, were lending to more than 4,000 member banks in 21 States in the Union, comprising more than one-half of the entire area of the United States. If our Reserve System has the funds to lend in such huge sums to the banks in New York for such uses, it is not difficult to understand why money should be so scarce in the interior where the real wealth of the country is being so largely produced, and where money is so distressingly needed?"

I cite this to show the manner in which the Board "mobilized credits for crop moving purposes" and the sort of "discriminating deflation" that they enforced. I do not concur in Mr. Williams' criticism that these loans should have been denied the New York banks on the ground that they were charging usurious rates of interest and making loans indirectly to their officers, and were lending large sums for speculative purposes. There are other and better ways of controlling these reprehensible practices. In my view any bank, no matter what its character or purpose, is entitled, or should be entitled, to the credit facilities of the Federal Reserve System **ad libitum** to the extent of its solvent, eligible paper, and that the Board has no right to distinguish between essential and non essential uses.

Enough for All.

The only limitation on the member bank's right to borrow or discount, should be that the money is not to be used for an unlawful purpose, or one that is against public policy. No money should be loaned to a member bank for the purpose of hoarding, for that is against public policy; indeed it is criminal in its consequences, and should probably be made so by law. There is evidence that these large loans may in fact have been made for the purpose of hoarding credit, but Mr. Williams does not make that charge, and the evidence available to me is not of a conclusive and official character, and therefore I do not do so. The truth is there was suf-

ficient credit available, if the Board had desired to use it. It could have doubled its total volume of loans, increased them from $3\frac{1}{2}$ to 7 billions, by reducing the gold reserve to 30 per cent, and it could safely have reduced it to 10 per cent. If it had been necessary to ration credit in order to promote the production of essentials, Mr. Williams' position would be well taken.

It appears from Mr. Williams' testimony that he was also in favor of "discriminating deflation," but he favored discriminating against non essential production in favor of essential production; and against speculative operations and in favor of legitimate business. The Board at first pretended that their purpose was to discriminate in this same manner, and that may in fact have been their original purpose. If so, they quickly changed it, perhaps at the instance of the Advisory Council, but Mr. Williams did not change. In the controversy that developed between them, the Board have answered his charges by accusing him of inconsistency, instead of denying or palliating what he says; but it is they who have been inconsistent and not he. He has faithfully and consistently adhered to the original program of discriminating deflation. When he saw that the original purpose was being perverted and the disastrous consequences that would follow, he mistakenly sought to correct the error within the Board itself, and not independent of it.

New York Versus the 4000.

On Dec. 28, 1920, Mr. Williams wrote the Board a letter in which among other things he stated:

"The reports of this office show that at the beginning of August last (1920), when money was being needed for crop-moving purposes, the national banks alone in New York City were lending in New York on call for account of correspondents and customers over \$500,000,000, which is a greater sum than the Federal Reserve banks of Minneapolis, St. Louis, Kansas City, Dallas, and Atlanta were lending to the more than 4,000 member banks in those five Federal Reserve districts.

"It is also worthy of note that while the Reserve System has been lending these huge sums to the banks

in New York City during the past 12 months at average rates of probably less than 6 per cent, these same borrowing banks have been lending to other borrowers at interest rates greatly in advance of those paid the Reserve banks—many millions being sometimes loaned, as I have heretofore shown, as high as 20, 25, or 30 per cent. * * * * *

"The official reports also show that in addition to the money which the New York banks were lending on call in New York for account of their correspondents and customers, the national banks in New York City this time last year had on deposit to the credit of their correspondent banks in all parts of the country approximately \$900,000,000 more, while the total sum which the New York national banks were lending, directly or indirectly, to all other banks throughout the country was considerably less than one-fourth of that sum."

The official reports of the banks to the Comptroller of the Currency show that at a time when money was badly needed for legitimate purposes in every section of the country, a net volume of \$1,150,000,000 of the money of the country banks was being employed in speculative operations in New York City. This reveals a monstrous breach of trust on the part of the country banks for this money does not belong to them; it belongs to their depositors who are entitled to have it used, when needed, for the legitimate business of their respective communities.

The banks justify themselves in making these loans by the plea that they are "liquid" and are collectible on demand or at maturity. They are not self liquidating; they are only liquid because the operations of the exchanges are underwritten by the banks. If the products of agriculture and industry were given credit facilities equal to the credits extended to the operations of the exchange markets they would be far more liquid than stocks and bonds. The remedy for this and a number of other kindred evils is to destroy the speculative operations of the exchanges, or, if that can not be done, then the exchanges themselves. Ninety per cent of their operations are pure gambling in which the sucker has but little chance. They are as contrary to public policy

and as immoral as was the Louisiana lottery, and there is infinitely more fraud in their operations than there ever was in the Louisiana lottery.

This is the way they have favored, according to an analysis of their own report, an industry in which 43 per cent of the people of the United States are engaged, and which annually produces more than one-half the new wealth of the country. This was the condition, according to their own report, on Dec. 30, 1920, when the farmer was pleading with his bank, his government and his (?) Board for credit to prevent the sacrifice of his crop which he had produced at great expense at the government's solicitation and upon its representation that the world would need his products.

Fighting for Centralization.

Mr. Williams also introduced in evidence before the Commission, a speech he made on July 14, 1921, at Augusta, Ga., (See same authority, pages 43 and 44.) He charged in this speech that the Board made an abortive attempt to close four of the Federal Reserve Banks in 1915, which was prevented by Mr. McAdoo, and that in the early part of this year 1921, Gov. Harding made another attempt to close the Dallas and Atlanta banks, —a further token of his love and affection for agriculture. His home town of Birmingham is in the Atlanta district.

Gov. Harding did not deny or explain either of these efforts in his testimony before the Commission, but he gave out a newspaper interview explaining the last incident, the effort to close the Dallas and Atlanta banks, saying that he was "only joking." Mr. Williams evidently failed to understand or appreciate his Lordship's jokes, for he filed a vigorous protest against the contemplated action. This was undoubtedly in pursuance of the general scheme to transform the system into a central bank by administration.

CHAPTER ELEVEN

The Board Demonstrates Its Power to Regulate and Control Credits

The Federal Reserve Board makes the following observations in its 6th annual report to congress covering the year 1919 (pages 69 to 72) :

"The Federal Reserve System has met the requirements of war and readjustment by expanding without, however, encroaching upon its legal reserves; it is capable, if need be, of expanding still further without having recourse to the emergency provisions of the act, and very much further by availing itself of those provisions. But the time has come for it to **demonstrate its power to move in the opposite direction**, and to prove its ability to do so without shock and with a minimum disturbance of business and industry. * * *

"It should, however, be repeated that the time has come for the system, in the interest of commerce and business, to exercise its power to regulate and control the credit situation. * * *

"The expansion of credit set in motion by the war must be checked. Credit must be brought under effective control and its flow be once more regulated and governed with careful regard to the economic welfare of the country and the needs of its producing industries.

"Deflation, however, merely for the sake of deflation and a speedy return to "normal"—deflation merely for the sake of restoring security values and commodity prices to their prewar levels, without regard to other consequences, would be an insensate proceeding in the existing posture of national and world affairs.

"It must never be forgotten that productive industry is profoundly affected by credit conditions. Modern business is done on credit. One of its life-giving principles is credit. The mood and temper of the business community are deeply affected by the state of credit

and may easily be disturbed by ill-considered or precipitate action. A system of credit control must always be judged by what it does to maintain a healthy condition of mind on the part of all sections and classes of the producing community. The ultimate test of the functioning of a credit system must be found in what it does to promote and increase the production of goods. True, in general, the truth of this observation deserves to be particularly emphasized in the present deranged state of world industry and world trade when production is the crying need of the hour everywhere. * * *

"I should be understood, however, that an elastic system of reserve credit and note issue implies capacity to control and the ability to curtail credit. **The ability of the system to check expansion under present circumstances and to induce healthy liquidation is now to be tested.**"

They Gave no Danger Signal.

I want to call particular attention to three statements made by the Board in this report:

1. That the Board proposed to "demonstrate its power to move in the opposite direction" and to "exercise its power to regulate and control the credit situation," not because the gold reserve was in danger or because there was danger of a panic, as Gov. Harding now argues.

2. The Board admitted that credit is the life-giving principle of business" and that deflation meant a reduction of values.

3. Mr. Harding's definition of elasticity, which he says "implies capacity to control and the ability to curtail credit."

1st. The Associated Press dispatch quotes Gov. Harding as testifying before the Congressional Agricultural Commission as follows: "The Federal Reserve Board did not create this financial depression. It saw it coming and got ready to protect things, and people ought to be grateful it did so." It did not see it coming in January 1920, when it made the report to congress covering the year 1919 in which it announced its purpose to deflate. It did not see it coming on May 18, 1920,

when it took the necessary preliminary steps to carry out the policy announced to congress. It did not see it coming on Sept. 15, 1920, when the Advisory Council met and congratulated it on the success of its operation and instructed it to go the limit.

If it had seen it coming then, there is no reason why it should not have made a frank, plain declaration to that effect to congress and the country, for both were deeply interested in the subject. It would in itself have been reason enough for, and perhaps the announcement would itself have obviated the drastic action which the Board actually adopted. There is no hint of it in the annual report of the Board to congress made in January 1920, or in its report of the proceedings of the May Conference made in May 1920, or in the proceedings of the Jubilee meeting of Sept. 15, 1920.

In fact the Board never at any time prior to the inauguration of its deflation program, and prior to the storm it aroused, gave any intimation of an approaching panic. These are afterthoughts. They are deceitful excuses, and miserable subterfuges that are unworthy their high office.

These gentlemen are supposed to be public servants. We do not expect our servants to hide things from us, or to do things that they are either afraid or ashamed to tell us about, or to make us false or misleading reports. We expect them to transact our business in an open, public, straightforward manner, and to render an account to us in a plain, honest, truthful way. They are not our guardians, and we are not all children and imbeciles.

2nd. The Board admitted that "credit is the life-giving principle of business", and that deflation meant a reduction of values. But it assured congress that it did not intend to deflate "merely for the sake of deflation and a speedy return to 'normal'"—deflation merely for the sake of restoring security values and commodity prices to their prewar levels without regard to other consequences." (Prewar values then is what they probably mean by the word "normal" that we now hear so much about).

Dodging Behind a Dog Story.

Gov. Harding must have subsequently changed his view about gradual deflation and credit control such as would preserve a "healthy condition of mind on the part of all sections and classes of the producing community." Testifying before the House Committee on Rules regarding H. R. 476, he said on May 4, 1920,—about four months after writing his 1919 report: "The problems confronting the Federal Reserve board are so great, and so serious is the situation ahead of this country in the next six months that really this whole business reminds me of the story of David Harem, where he says a few fleas are good for a dog because they keep him from brooding on being a dog. A diversion of this sort is entertaining in a way, because it diverts our mind from the serious problems that are ahead of us." (House Hearing Rules, 476, page 55).

This observation was not relevant to the subjects under discussion and not responsive to the question asked. The investigation related to the tactics of the board in forcing state banks to join the system. These banks had filed suit to enjoin the board. Mr. Smith, their attorney, asked the following question: "Have you any objection to the present status being maintained until the question is settled under this law?" The above was the answer.

This question related to the test suit of the American Bank and Trust Co., of Atlanta vs. Federal Reserve Bank, in which the Supreme Court, through Justice Holmes, held that the Federal Reserve Bank could not accumulate checks against a bank not a member of the system and present them at the window and demand the currency for the ulterior purpose of embarrassing the bank and forcing it to join the system.

"This whole business" that Gov. Harding referred to as being entertaining and as "diverting 'our mind' from the serious problems that are ahead of us" was the testimony of a host of state bankers from one end of the country to the other, all vouched for by their respective congressmen, as to the methods employed by the Federal Reserve Board to force them to join the system and to thereby perfect the board's control over

all the banks of the country and of industry and of prosperity. Much of this testimony was given in person by witnesses in the presence of Gov. Harding and the balance by affidavit. Not one word of it was denied.

The witnesses testified to hi-jacker and hold-up methods that would shame a bandit, but which only amused Gov. Harding. I cite only one of the flagrant instances, but there were many of similar nature. Woods Cones, President of the Cones State Bank of Pierce, Neb., swore: "That on Nov. 14, 1919, a high power auto, containing four people, drove into Pierce and stopped in front of the bank, but the engine was kept running. Two men, W. S. Lower and M. L. Bishop, got out of the car, armed with revolvers, and entered our bank. As agents of the Federal Reserve bank they demanded the currency on checks drawn against the Cones State Bank of Pierce, Nebr., of the aggregate face value of \$31,900, some of which had been held for over three weeks. While one of our bank force was counting out the money (about \$10,000 more than we were legally required to carry in our vault) to Mr. Bishop, Mr. Lower told us that Mr. Bishop was a United States Marshal, hard-boiled and armed; that he had cleaned up the State of Kansas and would get us anyway, so we had better sign up the agreement and keep our money."

There were banker representatives at this hearing from 24 states to testify to transactions of similar character, though not all so spectacular. See Hearing before the Committee on Rules, H. R. 66th Congress, pages 1 to 87.

These trifles amused his Excellency, who was at that moment (May 4, 1920) sorely burdened with the "great and serious situation ahead of this country in the next six months." "Our mind" needed some diversion from the contemplation of the serious things that confronted us, and that only he knew about, of the great events that he planned which would in due time shock these small bankers who quarreled with him about trifles. The secret was so great, their false feeling of security so ludicrous, that he could not refrain from giving them a slight warning, of what was in store for them, although not apropos the occasion.

Coming Events Cast Their Shadows Before.

I call attention to the fact that this prophetic revelation of what was then in "our mind," and of what was in fact in store for the country, indicates that he had changed his purpose since his report to congress. He then recognized that "the mood and temper of the business community are deeply affected by the state of credit and may easily be disturbed by ill considered or precipitate action," and "that the ultimate test of the functioning of a credit system must be found in what it does to promote and increase the production of goods."

Like the oracles of Delphi, the statement is a trifle vague and indirect, but it is susceptible of the interpretation that he did not at the time of making his report intend to enforce such drastic or "precipitate" deflation as would "disturb the public mind" or interfere with "the production of goods." On the contrary, he then appeared to have the notion that he could "regulate and control the credit situation" in such way as "to promote and increase the production of goods."

But May 4, 1920, he evidently designs action that will "disturb the mood and temper of the business community," for he sees visions of troubulous times, of a "situation so great and serious in the next six months" as to make the opposition of the state banks to the pressure he was bringing against them to join his system, or to submit to his dictation, appear like flea bites, which only gave his mind a little needed diversion, and which rather amused him.

What change had occurred to make such a vast difference in the situation? He had only recently reported that the system had "met the requirements of war and readjustment by expanding without, however, encroaching upon its legal reserves; it is capable, if need be, of expanding still further without having recourse to the emergency provisions of the act, and very much further by availing itself of those provisions."

There had been no further expansion during the 90 days following this report. The country was highly prosperous. The "demand for commodities from domestic as well as foreign sources was far in excess of the

supply." (Page 70, same report). Why, then, did he need a little diversion to prevent his mind brooding over the situation that then confronted the country?

A Move in the Opposite Direction.

3rd. Mr. Harding's definition of elasticity which he says "implies capacity to control and the ability to curtail credit." This, like most of the other Delphian oracles, lacks clarity. Whose "capacity to control"? And whose "ability to curtail"? The answer must be "the board's," for it was the board that was proposing to "check expansion" and "induce healthy liquidation," and to "regulate and control the credit situation."

Gov. Harding's favorite method of clarifying these sapient but obscure utterances in his speeches is by rule and chart, and with a rubber band. To show expansion he stretches the rubber band, and contraction is shown by the relaxation of the band as the pressure is relieved. He overlooks the fact that the band expands from external pressure, and contracts within itself as the pressure is relieved. His idea is to **enforce contraction by external pressure.**

His idea and definition of an "elastic currency and credit system" is a **manipulated one**. It is a system that will expand as far as the board in its wisdom thinks it should expand, and that will contract to the extent that the board thinks it should be contracted. This means not only a board controlled currency and credit system, but board control and regulation of wages and prices.

The system had expanded in response to the demand and pressure of war, had met every demand upon it, and still had capacity for very much further expansion, was strong and healthy, and its unnecessary and unreasonably high minimum gold reserve had not been touched. The prices of wages and property were high, and the country was in exceedingly prosperous condition, and the system, according to this report, was amply able to provide the necessary currency and credit for business and wages at these values.

But the "time had come", according to the view of the board as expressed in their report to congress, for

the system "to demonstrate its power to move in the opposite direction," for it to "exercise its power to regulate and control the credit situation," for it to "check expansion and induce healthy liquidation." He proposed now to "test the ability of the system to check expansion under present circumstances and to induce healthy liquidation."

The time had indeed come, and the circumstances were then such that the board thought it could safely assert the power that it had acquired by usurpation in an "administrative way", and by grant from congress from time to time upon one pretext or another.

The board thought, with good reason, that the country would stand for it. The bankers and the office holders and the newspaper writers and other salaried folks demanded that the pre-war purchasing power of the dollar be restored and the high cost of living reduced. Organized labor joined in the demand. There was universal sentiment and resentment against the profiteer, and everybody thought that nearly everybody else was profiteering.

The board had welded its power with great detail and care, and due to the war and the flotation of government securities, had not had the chance to use it or even to make a display of it. We hardly knew that we had a board, and we certainly did not know that it had such tremendous power. The Federal Reserve Bank was our sky line, and the board was in the dim and hazy distance with dim and hazy powers in our estimation.

This did not suit his Excellency, who loves applause and power, and who loves above every thing the favorable attention and approval of financiers,—the Masters of America, the "dominant men" that President Wilson described as constituting the invisible empire that rules the country. It suited them still less to have the Federal Reserve Banks handle the currency and credit system of the country. What profit to them to have a central bank with enormous power unless this power is used and used to their advantage?

CHAPTER TWELVE

The Advisory Council Is Called Together to Approve Deflation

On May 18, 1920, 36 days after the adoption of the amendment authorizing the graduated discount rate, the following proceedings were had in the U. S. Senate:

"The Assistant Secretary read Senate resolution 363, submitted by Mr. McCormick on the 15th instant, as follows:

'Resolved, That the Federal Reserve Board be directed to advise the Senate what steps it purposed to take or to recommend to the member banks of the Federal Reserve system to meet the existing inflation of currency and credits and consequent high prices, and what further steps it purposed to take or recommend to mobilize credits in order to move the 1920 crop. * * *

Mr. Gronna. Will the Senator briefly outline what are the provisions of the resolution?

Mr. McCormick. The resolution calls upon the reserve board to inform the senate what steps it contemplates taking to relieve the existing inflation and to mobilize credits against the time when we must move the crops of the country. The Senator very well remembers that in 1907, at this period in the year, there were manifest exactly the symptoms of economic and credit disorder which are present today, very much the same symptoms that were manifest in 1903. Unless, under the reserve system, the reserve board takes steps to forestall a credit stringency in the fall, we shall have something approximating a panic.

In my judgment announcement at this time of the contemplated steps will serve a most valuable purpose in relieving the apprehension of thousands of creditors in the country. Such announcement will tend to meet the very stringency which is threatened in the fall.

Mr. Gronna: May I ask the Senator if the resolution simply asks for information?

Mr. McCormick: It asks for nothing more.

Mr. Gronna: I certainly have no objection to that. I think it is very advisable that we should adopt such a resolution.

Mr. McCormick: The resolution asks for nothing more than information; in fact, I may say to the Senator that today there are gathering in Washington representative bankers from all over the country to confer with the reserve board and the Secretary of the Treasury about the grave situation now impending." (Cong. Record. Vol. 59, No. 137, Page 7720).

This is really a rather unique resolution. It related to a subject that the senate had no jurisdiction over. It recognized that there was an "existing inflation of currency and credits and consequent high prices." There was an implied request or direction to take some "steps to deflate currency and credits" and to thereby enforce the reduction of prices.

In the very brief discussion, or rather explanation of it, no reference was made to this part of it, but only to the "mobilization of credits to move the 1920 crop." There was no 1920 crop to move at that time, and there would be none for several months. The board had only recently reported to the senate that currency and credit could be very much further expanded without encroaching upon its excessive legal reserves. In fact, according to a statement of Comptroller Williams, they could at that time have expanded credit \$700,000,000 without reaching these legal reserves. The highest amount of agricultural paper that all of the Federal Reserve banks held at any one time up to Dec. 30, 1920, amounted to \$246,000,000. Another \$100,000,000, or at most \$250,000,000, would have prevented the forced sale of farm products and would have saved the farmer the enormous losses that he suffered. This the board could have granted without touching the legal reserve and still have about \$500,000,000 of unused credit capacity.

Congress, in recognition of the fact that it had provided for a gold reserve far beyond the amount needed, gave the board full discretion to suspend the reserve requirement. They could safely suspend it down to

15%. The British reserve was then vacillating around 10%.

The Federal Reserve Banks then held approximately \$2,200,000,000 of gold, their outstanding notes amounted to about \$3,200,000,000, and deposits about \$1,800,000,000, or a total of notes and deposits of about \$5,000,000,000, which would have required, at 15%, a gold reserve of \$750,000,000. This would have released approximately \$1,450,000,000 of gold, which would have provided the basis for at least \$10,000,000,000 more of credit,—three times the amount the Federal Reserve Banks then had outstanding.

In the explanation which its author, Senator McCormick, of Illinois, made, it does appear that "representative bankers were then gathering in Washington from all over the country to confer with the Reserve Board and the Secretary of the Treasury (David F. Houston of Missouri, not of Texas) about the grave situation now pending." The country was peacefully and contentedly sleeping in prosperity and fancied security, and knew nothing of the grave situation then impending. It was only known to the Federal Reserve Board, the Secretary of the Treasury, the assembling bankers, Senator McCormick, and perhaps a few other insiders.

There is some connection between the board, the assembling bankers, and this resolution. Either the board instigated this resolution in order to commit congress to its designs and probably also to stiffen the back bone of some of the bankers who might hesitate to ratify a program so drastic and destructive as the one desired by the board. If not that, then this resolution was for the purpose of directing the board to employ its power over currency and credit to deflate values.

In view of the fact that this purpose was not revealed in the explanation made by Senator McCormick in reply to the question of Senator Gronna, it is a fair inference that this resolution really originated with the board and was intended to be of service to it in carrying out the program it had decided upon, and had called the bankers in conference to have ratified. It had

announced its purpose to deflate in its report to congress four months before the adoption of this resolution by the senate, (which was adopted without opposition or discussion and without a record vote).

Kicking the Producers' Houn' Dog Aroun'

It is but fair to the board and the assembling bankers to state that at that time the whole atmosphere at Washington was against the values that then obtained, except wages and salaries. The President had assured the railway employees that if they would not demand a further increase in wages, the cost of living would be reduced. In an effort to reduce prices the Secretary of War had put on sale a large quantity of sundry items of war supplies, including a great variety of foods. The Attorney General, who had been made Food Controller, waged an active campaign by prosecution, through the press and otherwise, against alleged profiteers and to reduce prices, in which, according to the press reports, he spent more than \$500,000.

The press, the politicians and the labor leaders,—and loudest of all, the labor leaders—with one accord demanded lower prices for everything except labor and salaries. No voice was raised in behalf of the farmer and the business man. No demand was made by anybody for the existing level of values, although the wages of labor and salaries were based upon them, and although it meant a serious readjustment and disturbance to change them. The voices of the salaried man and the labor leader, who styled themselves 'the consumer', were loud and powerful, and that of the producer was silent.

This furnished an excellent situation for the board and its fellow conspirator bankers to accomplish the objects they had in view. There had been complete failure on the part of both the War Department and the Attorney General's department to reduce the cost of living. The President's promise to the railroad employees stood unredeemed.

The board had the power to reduce values, but it could not reduce the value of commodities without reducing the value of wages and of all kinds of property. Indeed, the board and bankers did not desire to make

this distinction. They wanted to increase the buying power of the dollar which meant the reduction of all values, including wages and salaries. The dollar that measures the value of property likewise measures the value of wages and salaries. If the dollar is made scarce and dear, if credit and currency are contracted, the values of wages, salaries and property are depreciated accordingly. The board knew this.

There is just retribution in the fact that organized labor, which furnished the pretext and the excuse for the crime that was committed against the welfare and prosperity of the country, has suffered from it, in common with agriculture and commerce. President Wilson was then a sick man, and his responsibility should therefore be limited to the fact that he created the law and appointed the men to office who brought this terrible calamity upon the country and the world. There is no evidence known to me that he directed or sanctioned this procedure by the board and bankers.

Gompers Gets a Revelation.

Mr. Gompers now recognizes the identity of interest between the wage earner and the farmer; it is unfortunate that he did not do so then. He has strongly condemned the decisions of the May conference of the board and the bankers. In his speech at the 1921 annual convention of the American Federation of Labor in Denver he emphasized the identity of interest between the laborer and the farmer and appealed for co-operation with the farmers' organizations.

It is one of the hopeful signs of the times that the farmers and wage earners are beginning to realize that there is a mutuality of interest between them, and not a conflict. There is, in fact, a mutuality of interest between all classes, including the banker, which unfortunately is not always recognized. All are interested in the laborer being well employed and receiving a fair wage, and in the farmer receiving a fair price for his products, —for there is no other road to prosperity.

The international banker is in a class to himself. He prospers and fattens on fluctuating and irregular exchanges, on high interest rates and depreciated securi-

ties. He is a "money changer" who gets his rake-off on these abnormal differentials and forced sales. He needs a demoralized market in order to acquire his stocks and bonds at low prices. When he is satiated with buying, it is easy for him, with his enormous resources, to re-establish the market and to sell his securities at enormous profits. This class is the most unfit of all to be in control of our currency and credit system.

Bankers to the Bat.

On that fateful day, May 18, 1920, there assembled in Washington on the invitation of the board, its own members consisting of 3 bankers, (Messrs Harding, Williams and Wills), 2 college professors, (Messrs. Houston and Miller), an editor (Mr. Platt), and one lawyer (Mr. Hamlin); the 36 Class C Directors of the Federal Reserve Banks, all bankers (whose names are unknown to me) and the 12 members of the Federal Advisory Council, all bankers, whose names and addresses are as follows:

Philip Stockton, president Old Colony Trust Co., Boston.

A. B. Hepburn, chairman advisory board Chase Natl. Bank, New York.

Levi L. Rue, president Philadelphia National Bank, Philadelphia.

W. S. Rowe, president First National Bank, Cincinnati.

J. G. Brown, president Citizens National Bank, Raleigh, N. C.

Oscar Wells, president First National Bank, Birmingham, Ala.

J. B. Forgan, chairman of board, First National Bank, Chicago.

Frank O. Watts, president First National Bank, St. Louis.

C. T. Jaffray, president First National Bank, Minneapolis.

E. F. Swinney, president First National Bank, Kansas City, Mo.

R. L. Ball, chairman of board, National Bank of Commerce, San Antonio, Texas.

A. L. Mills, president First National Bank, Portland, Ore.

In order to avoid the possibility of a division of opinion, and the possibility of the failure of their program, the board did not invite a single director of the Federal Reserve Banks who was not a banker. There was not present a single representative of commerce, industry, agriculture or labor, although it was intended to adopt measures that would reduce wages and prices, stagnate industry, and prostrate commerce. It was a most harmonious and highly successful meeting.

Harding Makes a Speech.

Gov. Harding made them a carefully prepared written speech outlining the conditions that then obtained and the remedy he had in mind. He never misses a chance to make a speech; and he usually does the speaking and the testifying for the board. He appears to be obsessed with the idea that he is a great orator, as well as a great philosopher and economist;—and he is as dull and commonplace in the one role as the other. He does, however, shine as a witness; in that capacity he has no superior and few equals. Just now this talent is in frequent use and it improves with service. He said among other things in this speech:

“It is this tendency of production to decline, particularly in some essential lines, which constitutes a very unsatisfactory element in the present outlook. It is evident that the country can not continue to advance prices and wages, to curtail production, to expand credits and to attempt to enrich itself by non-productive operations and transactions, without fostering discontent and radicalism, and that such a course, if persisted in, will eventually bring on a real crisis. * * * “Every effort should be made to stimulate necessary production and to avoid waste. War waste and war financing result inevitably in diminished supplies of goods and increased volume of credits. The normal relationship between the volume of goods and the volume of money and credits thus unsettled can be restored in either of two ways; one, the drastic method of contraction of credit,

and the other, by far the more desirable way, increased production. * * *

"Our problem, therefore, is to check further expansion and to bring about a normal and healthy liquidation without curtailing essential production and without shock to industry, and, as far as possible, without any disturbance to legitimate commerce and business."

"Our" (the board's and the banker's) "problem" is "to check further expansion and to bring about normal and healthy liquidation" etc.; and to "restore the normal relationship between the volume of goods and the volume of money and credits" by "the drastic method of contraction" if no other way can be found to accomplish it. They adopted "the drastic method of contraction" plan.

His Excellency did not then observe the world crisis approaching for he then complained of the "tendency of production to decline, and suggested that "every effort should be made to stimulate necessary production."

A Clarion Call for Contraction.

The following is the gist of their proceedings and decisions as appears from the report made by Gov. Harding to the senate May 25, 1920, published in the issue of June 1920, page 583-4 of their official organ, the Federal Reserve Bulletin:

"The Council has given consideration to the matters included in your communication of April 17 and begs to reply thereto in the following manner, following the order set out by you.

"(a) 'Causes of continued expansion of credits and of Federal note issues.'

"There are many contributing causes of which the following may be regarded as paramount:

"(1) We recognize, of course, that the first cause is the Great War.

(2) Great extravagance, national, municipal and individual.

(3) Inefficiency and indifference of labor resulting in lessening production.

(4) A shortage of transportation facilities, thus preventing the normal movement of commodities.

(5) The vicious circle of increasing wages and prices.

(b) 'How can the reserve position of the Federal Reserve Banks be materially strengthened before the seasonal demand sets in next fall without undue disturbance of the processes of production and distribution?'

"By urging upon member banks through the Federal Reserve Banks the wisdom of showing borrowers the necessity of curtailment of general credits, and especially for nonessential uses, as well as continuing to discourage loans for capital and speculative purposes; by checking excessive borrowings through the application of higher rates.

(c) 'If steps can not be taken at this time leading to a more normal proportion between the volume of credits and the volume of goods, when can they be taken?'

"In our opinion steps should be taken now, as outlined in answer to the last question.

(d) 'What is the effect upon the general situation of the increased Treasury borrowings and what should be the policy of the Federal Reserve Banks in establishing rates of discount on paper secured by certificates of indebtedness?'

"It is obvious that the borrowings of the Treasury have the same effect upon the general credit situation as those of other borrowers. The council would suggest the wisdom of congressional relief from the burden of Government financing by a policy of rigid economy; the revision of the tax laws for the sake of a more equitable distribution of the burden without reducing the revenue; the enactment of the budget system, the budget to include provision for the gradual payment of the short-time obligations of the Treasury. These would of necessity preclude unwise appropriations such as the proposed soldiers' bonus."

This appears to be a report made to the Board and the assembled bankers by the Federal Advisory Council through its chairman, Jas. B. Forgan, in response to written questions propounded by the board. It is needless to say that the answers were highly satisfactory to the board, and that they were adopted by it and the

assembled bankers with perfect unanimity and satisfaction.

No Real Inflation.

The Federal Advisory Council found that there was "continued expansion of credits and of Federal note issues" due to the several causes enumerated in the report. As a matter of fact there was no substantial expansion at that time, either of currency or credits. There was an apparent expansion of notes, but there had been a corresponding contraction of gold and other currencies, as pointed out

CHAPTER THIRTEEN

Financial and Trade Conditions When the Board Began Its Attacks on Credits

Mr. Jno. Skelton Williams says in his annual report covering the year 1920, page 21:

"The money in circulation in the U. S. at the close of the Government's fiscal year (June 30, 1920) represents a distinctly conservative amount, when we compare it with the total resources of the banks of the country. The advance in prices and the increase in the resources of our banks can not be properly ascribed to "inflation" in our currency. On July 1, 1914, the proportion of the **money in circulation** to the total **resources** of all banks, both national and State, was 13 per cent. On July 1, 1920, the money in circulation outside of the Treasury and reserve banks was only 10 per cent of the total resources of national and State banks. (Note: It was actually very much less). The **percentage** of money in circulation to total resources of all banks was, therefore, 30 per cent higher in 1914 than the percentage shown at the end of the last fiscal year.

"The proportion of money in circulation to total deposits of all banks (national and State, including trust companies, savings banks, etc.) in July 1914, was 16.4 per cent. In July 1920, the proportion was slightly less than 13 per cent. (Note: It was actually very much less).

He further conclusively shows in Vol. 1, page 15, of this same report that there was no expansion of credit. I quote it at length because we have these 51 bankers, 2 college professors, an editor and a lawyer adopting a resolution predicated on the fact that there was expansion of both credits and currency, and assigning in a solemn and erudite way the causes for it. If my statement of the currency and credit situation and Mr. Williams' report are true, then these 55 unselfish patriots deflated when there was no inflation.

I quote Mr. Williams freely and with confidence because the subject was in his department and he had possession of all the data on it which was contained in the sworn reports of all the national banks of the country, and because, too, his reports are conscientious, able and thorough, made to enlighten and not to cover up.

Mr. Williams has the distinction of being the only member of the board who was not in harmony with its program. He has the further distinction of being **persona non gratia** both with the board and with Wall Street. Gov. Harding, it appears from the testimony of both himself and Mr. Williams before the Agricultural Congressional Commission, suggested his willingness to fight Mr. Williams with "poison gas," which appears to be his favorite weapon. He has an excellent means of using it through a sympathetic and controlled press and the Board's Press Bureau. In his present controversy with Mr. Williams he will likely establish such a press gas screen as to leave the public in doubt as to whether he or Mr. Williams has told the truth.

Comparing credit conditions of Nov. 15, 1920, with March 4, 1919, shortly following the armistice, Mr. Williams says:

"An analysis of the reports of conditions of all national banks of Nov. 15, 1920, compared with their condition on March 4, 1919, four months after the armistice, suggests that there has been far less inflation of credit and loans, at least as far as the national banks are concerned, than is popularly supposed, and some of the criticisms as far as they are concerned, are hardly justified.

"The loans and discounts of all national banks on March 4, 1919, plus the United States Government securities owned (but exclusive of United States bonds held to secure circulation), which may be regarded in the light of loans to the Government, amounted to \$12,694,050,000, as compared with \$13,749,926,000 on November 15, 1920. This was an increase in loans and discounts and United States Government securities held during the past 20 months of only \$1,055,876,000, or less than 9 per cent. It should be taken into consideration that during this period of 20 months the Government sold and collected

\$4,500,000,000 of Victory notes, the majority of which were sold and collected for through our national banks.

"On March 4, 1919, bills payable and rediscounts of all national banks aggregated \$1,451,223,000, while Government deposits on the same date amounted to \$591,318,000, making a total of borrowed money, plus Government deposits (secured by collateral) of \$2,002,541,000. On Nov. 15, 1920, the total amount of bills payable and rediscounts was reported at \$2,390,633,000 and United States Government deposits at \$147,239,000, making a total of loans and discounts, plus money from the Government as deposits, of \$2,537,872,000, representing a total increase in bills payable and rediscounts and United States Government deposits during this 20 months' period of \$495,331,000.

"It was during these 20 months, as stated above, that the \$4,500,000,000 of Victory notes were subscribed and paid for, and the national banks were necessarily called upon to carry hundreds of millions of those bonds for their customers in addition to the Victory bonds which they subscribed to for their own account.

"The strong position of the national banks is further apparent when we consider that the amount of United States Government bonds which they hold (exclusive of those held to secure circulation), plus the loans made by these banks on the security of Government bonds, is practically as much as the aggregate of their bills payable and rediscounts, including money borrowed from the Federal Reserve banks and from all other banks.

"We therefore find that if the national banks should sell their United States Government bonds to investors and collect the money which they are now advancing on United States Government bonds they could, as a whole, without drawing upon their reserves, pay back every dollar they owe to the Federal Reserve banks, whose earnings would as a result of such collections be reduced approximately \$150,000,000 per annum unless they should find other means for employing their funds. Approximately 90 per cent of the rediscounts of the national banks are obtained from the Federal Reserve Banks."

Banking Strength Way Above Par.

We had absorbed an issue of government bonds during this period of 20 months since the armistice, equal to 30 per cent of all outstanding national bank loans, and the loans held by the member banks had only increased 9%. The national banks themselves could pay all of their loans with the Federal Reserve banks by selling their government bonds. Our population, wealth, and commerce increased approximately 9% during the same period of time; the increase in bank loans was not inflation, but only the normal and healthy development of the business of the country. This disposes of the inflation of credit theory, and of the threatening panic theory.

There was extravagance, of course; and there always has been and always will be "national and municipal extravagance." There will also always be "individual" extravagance, particularly in periods of prosperity. But the great mass of the people are not extravagant, nor were they so at that time.

The report of Comptroller Williams shows that during the year ending June 30, 1920, the number of savings depositors actually increased 496,519, and their average deposits increased from \$494.14 to \$550.92, and the gross aggregate increase amounted to \$436,132,000.

There may have been "(3) inefficiency and indifference of labor resulting in lessening production." The board estimated in this same report (May 25, 1920) to the senate, the lessened production at 10% of each of the following items, viz: Livestock, grain, lumber, coal, petroleum, pig iron, steel ingots, copper, cotton, and wool. The remedy they adopted has still further diminished the production of lumber, pig iron, steel ingots, copper and cotton, approximately 50%, and of the other items approximately 25%. Gov. Harding is correct in saying that the "ultimate test of the functioning of a credit system must be found in what it does to promote and increase the production of goods." Measured by that test the system is a colossal failure.

But the thing that was nearest their hearts was "the vicious circle of increasing wages and prices," for that meant the vicious circle of the decreasing purchasing

power of the dollar,—and they and their class owned and controlled the dollar. Above everything else they wanted to put down values and put up dollars.

That is the substance of what his Excellency said in his 1919 report to congress, and in his speech to the assembled bankers. That is the substance also of Senator McCormick's keynote resolution. That is primarily what they were there for, the remedy they adopted had that in view, and that is what they accomplished.

The pretended "mobilization of credits for crop moving purposes" was all bunk to deceive congress and the people. These crop credits were "mobilized" by applying the graduated discount rate and restricting credit in the agricultural banks, and by apportioning to agriculture less than 8% of the credit of the Federal Reserve Banks. They meant to compel the farmer to sell his product at forced sale on a demoralized market in order to break the market, and they accomplished it.

The sordid fact is that every man who participated in this May conference profited directly as a result of it,—some of them enormously. And the sordid fact is, further, that each and every one of them then knew that he was acting in his own financial interest.

The salaried man's salary and the banker's money were both doubled in value because they would both buy twice as much as before. It likewise doubled the buying power of the salaries of the members of congress and of our learned political economists and newspaper writers.

The notes of the debtor, the bonds of the government, and all obligations to pay money were also doubled, because it takes twice as much labor, corn, cotton, wheat and other products to pay them as before. When they are paid the money received will buy twice as much property as before.

Granting that there was "extravagance," "indifference and inefficiency of labor," and a "vicious circle of increasing wages and prices," these abnormal conditions will always correct themselves. It is not the province of a banking system, or even of the government, to correct them. We have the right to labor as we please, spend our money as we please, and produce as we please,

without governmental compulsion, restraint or control. It is not for the rich banker who lives luxuriously to make us save, whose office hours are from nine to three, with two hours off for lunch, to make us work; who produces nothing, to complain of our production.

It will be noted that they also recommended "the revision of the tax laws for the sake of a more equitable distribution of the burden without reducing the revenue," which necessarily means transferring the burden from the income of the rich to the pockets of the poor. They also adopted (unanimously; everything they did was unanimous, for their interest was unanimous), a separate resolution recommending an increase of railroad rates to the Interstate Commerce Commission, which increase was granted a short time thereafter. They appointed a committee of five of their members to present this resolution in person to the I. C. C.

They concluded with the statement that if the things they recommended are done "these would of necessity preclude unwise appropriations, such as the proposed soldiers' bonus." They foresaw that if their program was carried out the present crisis would be the result, and a soldiers' bonus would be impossible. Knowing that everything else would be reduced in price, they desired to have railroad rates advanced so that the railways would earn money while the balance of us were losing it, and the rates were advanced.

They proposed the "curtailment of general credits, and especially for nonessential uses, as well as continuing to discourage loans for capital and speculative purposes by checking excessive borrowings through the application of higher rates" for correcting the things that they mentioned and complained of. They did curtail "general credits"; they did check extravagance; they did put down wages and prices; they did "preclude the soldiers' bonus."

They did everything they decided upon with remarkable thoroughness and precision; and yet they deny doing it. They now say, among other excuses, that these things all resulted from world conditions. But the world was then prosperous; just as prosperous as we were. We were contributing to the world's pros-

perity in furnishing the people of the various countries of the world the raw material and other things that they sorely needed; and the world was contributing to our prosperity in buying them.

We were also extending to the banks and business firms of the world such credits as they needed. These credits were then all good, but the board has bankrupted many men in other countries as well as in ours. There are even now many solvent firms and banks in all of the countries of the world, except Russia, to whom credit can be safely extended. Germany is said to have the richest man in the world. The fact that the government has a large bonded indebtedness and is in bad financial condition does not mean that all of the people and institutions in it are insolvent.

They now claim that this crisis started in Japan and spread from there throughout the world. This is not true, and they know that it is not true. It is another one of their lying alibis. The collapse of the Japanese silk market was due solely to the Chinese boycott, and to anti-Jap sentiment in China, and to an inadequate supply of money. The silk market is unimportant so far as we are concerned, and so far as other markets are concerned. Industrial conditions in Japan are comparatively unimportant and have little bearing on general financial conditions, because Japan is neither a large importer or exporter.

Under conditions that prevailed in 1920 it is doubtful if any agency could have brought about this collapse of prices and consequent crisis except the Federal Reserve Board of the United States of America. We were the principal exporters of raw materials to the other countries of the world. Our government, operating through its banking agency, deliberately marked down the prices of all of our products approximately 50%, which depreciated correspondingly the value of the stocks held by the factories and merchants of other countries, and also of the finished product.

If a Federal Reserve Board in Japan had adopted the methods of our board for the express purpose of reducing values, as did our board, it would have had but little, if any, effect upon the the markets or financial con-

ditions of the world. It would only have disturbed the market for the products that Japan exported, which is largely silk, and limited Japanese buying power, which is not important.

In the 6th annual report of the Federal Reserve Board covering the year 1919, page 70, the Board said:

"It should be recognized that credits extended to Europe create a demand for commodities that competes with the domestic demand and this competition is one of the potent causes of high prices. The demand for commodities from domestic as well as foreign sources is so far in excess of the supply that the increased cost of credit, due to an advance in rates, is absorbed in the price, and speculation, anticipating large profits, is not checked by any reasonable advance in rates of interest. These conditions are all adverse to any easy and effective operation of credit control by means of discount rates."

The board complained that some of the banks were financing exports. They wanted to discourage exports because the foreign "competition is one of the potent causes of high prices." It was "high prices" they were after, and they did not want any foreign credits extended because it would keep them up. Prior to the work of the deflationists, we had heard nothing about all of the people and institutions in Europe being insolvent. The banks were lending to them freely. Such losses as may have occurred are the result of the work of the deflationists.

CHAPTER FOURTEEN

A General Shaking Down of Prices Demanded By Secretary Houston

Secretary Houston, Chairman of the Board, wrote Mr. J. S. Wannamaker, a banker of St. Matthews, S. C., and president of the American Cotton Association, on March 4, 1920, as follows:

"I do not think it would be wise for the government to subsidize our producers and to maintain or increase the high level of prices here by stimulating sales to European countries which find themselves unable or unwilling to make payment for their purchases."

He thought it unwise for the War Finance Corporation to extend credits to Europe because it would "maintain or increase the high level of prices." It was the "high level of prices" that he was fighting, and he suspended the War Finance Corporation for the purpose of reducing them. It had been created by congress for the express purpose of financing the export of our surplus products during the period of readjustment.

He suspended it in defiance of the expressed will of congress on the pretended ground that there was ample credit for handling the products of the country, and that the credit facilities of the corporation were no longer needed; and not on the ground that European credits were insolvent and the corporations would lose money. As a matter of fact, these credits were all solvent, and the corporation has never reported losing a dollar on account of them.

Congress repudiated the act of suspension by re-enacting the law. It was vetoed by ex-President Wilson at the instance of Prof. Houston. The law was finally enacted over the President's veto by an overwhelming majority.

Foresaw a Panic—Which They Started.

Nowhere in the recorded proceedings of the fateful May conference, nowhere in Gov. Harding's speech to

the Advisory Council and the assembled bankers, nowhere in his various reports to congress, is mention made of world conditions that caused them to do the things that were decided upon at the May conference. They said that they decided to "curtail credits" for the reasons that they gave. That is their own record and their own report of it as shown in their own publication.

There may have been other reasons that they did not assign, and that were only known to themselves. There is no record of them, and therefore they cannot be discussed. It may be safely assumed that they set forth the most plausible and satisfying reasons that they could think of. It is certain that if they had such a good reason as a world situation, necessitating their action, they would have stated it with emphasis and embellishment.

They no doubt say truly that they saw a world crisis, and a world cataclysm of prices impending, but it was after their deflation decision and not before; it was the result and not the cause of what they did. It took no special knowledge, no gift of prophecy, to foresee such a world crisis following their deflation program, for it was the necessary consequence of their act. When they contracted currency and "curtailed credit" to borrowers here and in other countries of the world; when they forced down the values of goods here that were being distributed throughout the world; when they demoralized markets here and throughout the world, it could mean nothing else except a world crisis. This they did, fully realizing and foreseeing the certain consequences of their act.

It is marvelous that in all of the testimony Gov. Harding has given and in all of the speeches he has made regarding the May conference and the deflation program that he has never admitted a single reason for it that they then officially assigned; in fact, he has repeatedly denied that they ordered deflation. It is always something else,—the depletion of the gold reserve, a threatening panic or an impending world cataclysm.

If the things they designed were lawful, if they were intended to be in the public interest, why not truthfully

and candidly acknowledge them? Why not boldly proclaim, "Behold, we have corrected extravagance, the inefficiency and indifference of labor, reduced values and restored the prewar value of the dollar"; "Behold, also, we have made it necessary for the government to practice rigid economy and to shift the burden of taxation; have preserved the earning power of the railways during the crisis we have created, and have precluded a soldiers' bonus"?

Walking With Gum Shoes.

It is marvelous also that a program of such momentous importance to the people of our country and of the world could have been adopted so quietly and secretly at the time as not to attract public notice, and that the record of it is so meager that even now (fifteen months later) it is not clearly understood by congress and the country. It is so meager that they presume on that fact to deny it.

I first called public attention to it in a speech at the Cattlemen's Convention in San Antonio, (March 1921) which was answered by Mr. R. L. Ball, a member of the Federal Advisory Council, who was present at the May conference, and also by Mr. Lynn Tally, then Deputy Governor of the Dallas bank. Mr. Ball, whose speech followed Mr. Tally's, did not deny a single statement that I made, which I have more elaborately reiterated above. Mr. Tally was evidently surprised and shocked, for he said that if my charges were true the board should be summarily discharged from office.

Indeed, the purposes which they themselves say that they sought to accomplish,—and that they did accomplish—are so foreign to the purposes and powers of the banking system which they were administering; so inconsistent with the spirit of our government and of our institutions; so violative of the constitutional rights of the citizen; so unconscionable, destructive, cold-blooded and cruel, that I should not expect anyone to credit what is here written if every word of it was not verified by their own published record, which can not be denied or explained away.

There is no parallel in American history to the

duplicity, base ingratitude and refinement of cruelty of this Crime of '20. You must search oriental literature for a precedent. The American soldier, with the co-operation and support of the farmer, the laborer, and the 20,000,000 bond buyers, had but recently saved the fortunes of these 55 patriots and others of their class. They have all been treated with the same callousness.

There are of course other considerations, as well as that of gratitude, involved in a soldiers' bonus. Some of them do not need it or want it, it may do others harm, and it may be that a general soldiers' bonus is unwise. Many soldiers returned to find their jobs abolished by conditions beyond their employers' control. These are undoubtedly entitled to government aid. The American Legion of Honor should at least have their application considered upon its merits. It must not be summarily disposed of by a bunch of selfish bankers. The soldier knows, and we know, that conditions **ought** to be such in this country that the government could discharge every obligation due him.

Salting Down the Bond Buyers.

The 20,000,000 bond buyers have had the same dose. Secretary of the Treasury, Carter Glass, in his annual report to congress covering the year 1918 said, (pages 88 and 89):

"It is believed that this increased authority to lend on the security of Government obligations had a very beneficial effect in aiding in the flotation of the fourth Liberty loan, the largest of the four Liberty loans placed, and also aided in the placing of the Victory notes.

"The regulations promulgated by the Comptroller of the Currency and approved by the Secretary of the Treasury enabled the national banks to make these loans to an unlimited extent as long as the loans were secured by 105 per cent of Liberty bonds, Victory notes, of Treasury certificates of indebtedness, until Dec. 31, 1920, or until such later date as the Comptroller of the Currency, with the approval of the Secretary of the Treasury, may prescribe. * * *

"The mere fact that national banks had the right to lend to customers on the security of Liberty bonds to

this unlimited extent had a stimulating effect even upon buyers of Liberty bonds who did not have occasion to pledge their holdings. The knowledge that they could borrow on them if they needed to do so naturally encouraged many to subscribe for more than they would otherwise have taken."

The Federal Reserve Board said in its report for the year 1919, page 68:

"As has already been pointed out, the Federal Reserve Banks became great bond-distributing organizations; firms and corporations, large and small, men and women in every walk of life, were urged to subscribe for bonds, and the credit facilities of the Federal Reserve Banks were placed at the disposal of member and non-member banks in order that they might lend freely on bonds for which the subscribers were unable to pay. The public was urged to borrow and buy, and it was found after the close of the Victory loan in May, 1919, that more than 20,000,000 subscriptions had been received in response to this appeal."

The people bought these bonds from a sense of patriotism, and "bought until it hurt." They were "urged to borrow and buy" by the government, and by the banks, and they did so. The "credit facilities" of the banks were liberally offered and liberally used. After the last issue of bonds, (the Victory bonds), had been subscribed for, and before a vast number of the purchasers had had sufficient time to save enough to pay them, the board instructed the banks to enforce the payment of these loans. Necessarily this had the effect of forcing the bonds on the market and of depreciating the market. They have been acquired by the international bankers, the insurance and trust companies, and private money lenders, who will later advance them to a premium.

These great and good patriots (?) have decreed that those of us who won the war must now pay for it, and pay for it with \$2.00 a day wages, \$1.00 wheat, 50c corn, and 10c cotton. They have decreed that the gold and the riches that have come to the United States as a result of the war, and of our labor, and of our sacrifice, shall belong to them, and that we shall have no part

in them. It shall be our duty to "work and save" and pay, and their privilege to receive.

Comptroller Williams makes the following statement of national bank earnings covering the period up to June 30, 1920:

"The earnings of the national banks, both gross and net, have surpassed all previous years. The net earnings for the 12 months ending June 30, 1920, amounted to \$282,083,000, an increase of \$41,717,000 over the year preceding; and the increase which has taken place in the net earnings of the national banks in the past seven years has exceeded by 18 million dollars the total increase in earnings shown for the 43 year period from 1870 to 1913." The average earnings of all the banks for the year were more than 25%, and the big banks of the cities earned a much higher percent.

This does not take into account the private banks of Morgan & Co., Kuhn, Loeb & Co., and banks of that character, whose earnings have been fabulous, and whose influence is now directing the operations of the Federal Reserve Board, and largely of the government. The year ending June 30, 1921, will be far more profitable than the preceding year, barring some apparent losses. In case of these apparent losses they will get the collateral, a large part of which they will later reestablish in value, and much of which they will later sell at substantial profits.

Ways of Invisible Empire.

They must have assembled as quietly as the gathering of the Ku Klux Klan, and their deliberations must have been as secret and as harmonious. They left only a record which they then thought public opinion would sanction, but which, since hearing from the great silent mass of the people, they now deny.

This meeting accomplished more in one day's time than congress is able to do in a year. You must "hand it to them" when it comes to doing things. Their efficiency is beyond question. At one sitting they established the buying power of the dollar, and reduced correspondingly the value of wages and of property; they corrected extravagance, both of the government and the

individual; they subdued labor; they at least gave impetus to the movements to increase freight rates and to shift the burden of taxation, and they precluded the possibility of a soldiers' bonus.

There were no differences of an upper and lower house to be reconciled; no president to veto; no press to criticise, and no constituents to please. They have reestablished the "star chamber" with all of its power and efficiency, and with its irresponsibility.

President Wilson truthfully said in his campaign speeches that there was a group of "dominant men" who constituted an invisible empire that then controlled the government, ruthlessly and in their own private interest. He, who charged it with apparent boldness and sincerity, perfected their control and added to their power. He gave them the right to do, under the semblance of law and with quasi government sanction, what they had before done secretly and in violation of law. He gave them the use of the strong arm of the government in executing their wicked designs.

Their program of liquidation is not yet quite complete. Organized labor has fought stubbornly against the inevitable. Our Masters are not ready for prosperity until labor also is thoroughly liquidated. When that is accomplished—and not sooner—credit will be available, demoralized exchanges will be stabilized and exports financed, the railroads will make needed repairs and buy needed equipment, factories will resume operation, and the laborer will receive a wage and the farmer get a price for his product in line with the value of the dollar, as may be finally established by the board.

A Shake Down—Then a Touch Down.

Mr. A. Barton Hepburn, Chairman of the Advisory Board of the Chase National Bank of New York, and member of the Federal Advisory Council from the New York District, very clearly states their position in an article in the July issue of the Chase Economic Bulletin. (All of the big New York banks and the Federal Reserve Board now maintain export economists and financial writers, and issue monthly magazines. All of these publications except the Federal Reserve Bulletin

are distributed free for the edification and enlightenment of the dearly beloved people):

"The revival is in order when costs of production of all kinds, including rentals, overhead, wages, raw materials, coal, and so on, have been shaken down until they are in line with the prices of finished products. It is necessary that this **general shaking down** should be thorough going before a soundly based revival can be expected. The effort to offset the failure of certain costs to come down by making other costs (money) artificially low is pernicious. Any revival based upon it would be unsound and short-lived."

A "general shaking down" correctly expresses it. Our nose is to be held to the grindstone until this "general shaking down" is completed. In the meantime such a "pernicious" thing as a reduction in interest rates must not be permitted to occur. Apparently giving the cue to his brethren to argue in their journals against a reduction in the rate, Mr. Hepburn says further in the same article:

"With the idea generally entertained that a high reserve ratio should be a signal for low rediscount rates, it would be exceedingly difficult for the reserve banks to resist political pressure demanding very low rediscount rates, and demanding improper uses of Federal Reserve Bank money.

"It is, therefore, under present conditions, **imperative that we should combat the theory which makes a high reserve ratio a signal for low rediscount rates.** Our present high reserve ratio and our prospective higher reserve ratio are wholly abnormal and misleading."

It is "**imperative that we**" bankers, our professors, economists and financial writers get busy and combat the theory of a low discount rate. This political propaganda to put down the discount rate is a pernicious thing that must be combatted by all of the paid patriots and others interested in high priced dollars. They will no doubt follow the lead of the bell weather; we may, therefore, expect many plausible arguments against lowering the discount rate in the financial columns of the press and financial journals.

We are due to have a season of prosperity; in fact

it is overdue. We should have had it during the past 12 months of depression. It is like a cork that is being held under by the pressure of a controlled financial system, that is always struggling to come to the surface. Release the pressure and it will appear almost instantly.

We want to believe the people who differ with us are honest in their views and purposes. We want to be, and ought to be, charitable in our judgment of men and their motives; this is especially true of men in high authority. While we should criticise their acts if we think them wrong, freely, and, if need be, severely, their motives and their integrity of purpose should not be questioned without ample cause. "It is human to err". If the error is honest it should be forgiven, however costly it may be.

Truth is often harsh and cruel because men's designs and deeds are harsh and cruel. Telling the truth is never so harsh and cruel as the deed itself. If the deed were not cruel, the revelation of it would not be. The truth must be told, although it may be offensive to the sensibilities of the men involved, for it is important that we know the corrupting power and methods of the Money Trust, which must be overthrown if this government is to survive.

Prof. Houston Begins to Climb.

It was reported in the press a few days ago that ex-Secretary Houston (of Missouri) who has, since his retirement from office, been connected with a surety bond company, had been appointed as the financial representative of the American Telephone and Telegraph Co., and that his title had not yet been defined. This indicates that a berth has been made for him and that it is a sinecure.

His training, experience, age and mental limitations are such that this kind of an office would not be created by the American Telegraph and Telephone Co., because of any special qualification that he has. This office has been created at a time when business institutions generally are abolishing offices, letting out men, and reducing salaries. Under these conditions, he would appear to be extremely fortunate to step from his Treas-

urer's office into a good position with a bond company.

Professor Houston has been wrongfully charged against Texas, which does the state a great injustice, for he was only a sojourner in it for a brief time. Texas has enough sins to answer for without him. His business experience up to the time of his appointment as Secretary of the Treasury was limited to that of spending a rather small salary. Really, this problem of making the "two ends meet" had been such a serious one that it is not at all surprising that he was an honest and earnest deflationist. He had never been a business man and knew nothing about his problems. He was a college professor and salaried man, and his major problem always was to buy the most with the least money. He was always interested in low prices.

Prof. Houston never financed anything in his life. He is absolutely without practical financial knowledge or experience. There are 1,000 men already in the employ of the American Telegraph and Telephone Company who have more knowledge and experience, who have more natural aptitude, and who can render greater service, unless Prof. Houston, during his recent tenure of office, established connections and created obligations that can be of special service. Prof Houston may be finally promoted to an official position with a New York bank or trust company,—after the expiration of the two year period of disqualification. It would not be surprising.

The press reported some time ago that the bankers were organizing a \$100,000,000 discount corporation and that Governor Harding would be the manager of it with an annual salary of \$100,000. The organization of this corporation has been postponed until the deflation program has been fully completed and the "Money Trust" is ready to start what they call a "bull campaign." It will probably then be organized, and Gov. Harding will probably be its executive officer.

It is unfortunate that the directors who control our financial system have no business of their own to return to, and that they must have a job when they go out of office. Naturally they look to New York City where the big jobs are, and naturally New York City knows that,

and is not slow to hold out hope to them. It may be that the remaining members of the board realize that there may be a good job for them at the end of their terms; and find hope and satisfaction in that realization. No doubt, generally speaking, they are unconscious of the fact that this colors their official action, but the Money Trust is not unconscious of it.

A Leaf from the Ten Commandments.

We can not, and do not, expect our officials to be super-men, or anything other than human beings governed by the same desires and actuated by the same impulses that govern us; but we do expect them to be honest and square, and to tell the truth. **There is conscious guilt in the deflation program as shown by their official record.** There was deception and hypocrisy in its initiation; and there has been nothing but deception and hypocrisy about it since.

People with a good conscience do not lie; they do not lie about things that are right; they only lie about the things that are wrong and that they know are wrong. The hypocrite and the traitor are governed by the same motive. It is **self**, nothing but **self** and an utter disregard of everything and everybody except **self**. They are governed alike by the hope of gain, or the fear of punishment.

There is no law against any of these crimes, although the most detestable moral crimes in the whole category of crimes, except under special circumstances. Lying under oath is a felony, and treachery to one's country in war is a high crime, punishable only by death. There are no degrees of turpitude in treachery, either moral or legal; when it is a legal offense it has but one penalty, death. It is the basest of human crimes, for it involves not only hypocrisy, but also abuse of trust and selling out of friends, relatives, neighbors and associates, for personal gain. Lying is often harmless; hypocrisy is often but the effort to cover up our shortcomings and weaknesses; but treachery is always mean and hurtful. A traitor must be a hypocrite, but a hypocrite is not necessarily a traitor.

The Scriptures describe and denounce these charac-

ters in similar terms. "Ye liars and hypocrites, who are likened unto whitened sepulchres" that are fair to look upon and fair in talk but "full of dead men's bones." The traitor is impersonated by the character of Judas Iscariot who sold his Master for thirty pieces of silver.

The program of the deflationists has worked smoothly because it has been perpetrated by pretended friends, instead of open enemies. We do not know what Mr. Warburg would have done if he had continued governor of the system. He is no doubt a deflationist, but it is hardly likely that he would have inaugurated such a destructive campaign.

But if he had done so, he would have at least been true to his race, to the interest of his friends and associates, and to the training and convictions of a life time. He did not stand as the representative of the producing section or division of the country, nor was he appointed to represent them. He did not pretend to have any interest in the problems of the farmer, nor was he appointed to represent such interest. He was there to represent the New York banking interest, and as such representative he was a logical and a necessary deflationist. Deflation under his administration would have deceived nobody.

CHAPTER FIFTEEN

Official Arguments for Deflation and the Facts Bearing Thereon

The next quarterly meeting of the Federal Advisory Council after the May conference was held in Washington on Sept. 21, 1920, and was attended by all of the 12 members. The full force of their deflation operations had not at that time been generally felt, and they were not then trying to shift responsibility and to establish alibis. In fact, they then appeared to be rather proud of their achievements. The meeting was in the nature of a celebration and a love feast in which bouquets were rather profusely thrown. There is a note of triumph and satisfaction in their report of their proceedings; they evidently thought then that a majority of the people of the United States are deflationists, for they discussed the subject in a rather frank way, which they have not done since.

A Belated Alibi.

The Board's annual report covering the year 1920 is dated Feb. 16th, 1921, after the crisis had partially developed, and after they had begun to hear from the toiling masses. It is significant that the first 23 pages (pages 1 to 23 inclusive) of this report is devoted to an argument to prove that they had not contracted currency and credit and had not deflated values; that they had continued to extend liberal credits and especially to agriculture, and that they were not responsible for this crisis, but that it originated in Japan. The last five pages (pages 604 to 609), which contain the report of the Federal Advisory Council show conclusively that every argument of the first 23 pages is false.

On page 11 they state: "It is worthy of note that these conditions did not originate in the United States but that this country was one of the last to feel them acutely, and so far has felt them only in a much more moderate degree than has been the case elsewhere."

Every word of which is false, and is shown to be false by this same report. On page 18 they state "That the changes in business conditions and readjustment of prices have not been brought about by contraction or drastic restrictions is demonstrated by the fact" etc.

They announced in their 1919 report, which was filed in February, 1920, that they meant to "demonstrate their power to move in the opposite direction" i. e., towards deflation instead of expansion; they boldly took the necessary steps to do this at their May conference; they felicitated themselves upon the success of their operations in September 1920. But now Feb. 21, 1921, they officially deny all that they have done; and they have been denying it ever since, officially, unofficially, and otherwise.

The report of the September conference has all of the ear marks of propaganda for the enlightenment of the deflationists. Instead of featuring this report in their front pages, as it was evidently intended, they hide it in the appendix; ordinarily a safe place to put it, for few people wade through the cumbersome and dry statistics, tables, etc., of a 600 page official report.

The report of this conference is rather lengthy and for that reason will not be given in full. All of that part of it relating directly to the subject under discussion will be presented, although it is rather academic and verbose, for these gentlemen are given to charging "garbled extracts" and that they are incorrectly quoted. The full report will be found in the last five pages of reading matter of their 7th annual report covering operations for the year 1920, pages 604 to 609, inclusive, from which the following extracts are taken:

PROCEEDINGS OF THE COUNCIL.

"Recommendations of the Federal Advisory Council to the Federal Reserve Board, September 21, 1920.

"Topic No. 1—Credit control.

(1) What are the objects to be attained by the policy of credit control in the existing circumstances? Is the object (a) to maintain or to strengthen reserves? (b) To stabilize the existing situation by prevention of

further expansion? (c) To bring about a discriminating deflation by reducing the total volume of credit?"

Apparently the board at that time was not entirely clear as to the objects they sought to accomplish by their credit control policy, nor how far they intended to go with it. They did not know whether to stop at "strengthening the reserves" and the "prevention of further expansion," or whether to go to the extent of bringing about "discriminating deflation by reducing the total volume of credit." We have here a distinct recognition of the fact that it was within their power either to stabilize the then existing values, or to deflate them by their control of credit, and that they have the power to "discriminate," which means to reduce the value of some items and not others, a tremendous and dangerous power. Apparently they propounded these questions to the Council for the purpose of getting their advice as to the proper stopping place. They were told to go the limit. The Council replied as follows:

"Recommendation. From the statistics compiled by Prof. Kemmerer, of Princeton, bank deposits increased from \$12,678,000,000 in 1913 to \$27,928,000,000 in 1919. At the same time the ratio of cash reserves to total deposits diminished from 11.7 in 1913 to 6.6 in 1919."

A very, very bad condition. It was the reserve then of the member banks and not of the Federal Reserve Banks—as they now claim—that was in danger. The "impending crisis," the threatened collapse, was due to the fact that there was not enough "cash reserves" to support the deposit liabilities of the member banks and not to the fact that the gold reserve held by the Federal Reserve Banks for the security of their notes and deposits was impaired and needed replenishing. There were obviously but two remedies for this threatening, top heavy condition: one, to reduce the deposits, which can be done by the destructive method of forcing payment of loans and contracting credit; the other by the constructive method of increasing the reserves, which can be done by putting more money in circulation.

For some reason these distinguished quasi-govern-

ment officials chose to use the unofficial estimates of Prof. Kemmerer instead of the official reports of the Comptroller, or of the Federal Reserve Board, or of the Secretary of the Treasury, all of whom compile statistics showing the deposits, the reserve positions of the banks, and the money in circulation. I have earnestly sought to reconcile the Professor's estimate of "cash reserves" with the official figures. According to the report of the Federal Reserve Board published in the Federal Reserve Bulletin, July 1921, page 851, the 9600 member banks carried reserves with the Federal Reserve Banks of \$1,838,000,000 on June 30, 1920, and \$1,827,000,000 on Nov. 15, 1920, against deposits of practically \$15,000,000,000 on both dates, equal to about 12% of their deposits.

Prof. Kemmerer's Figures.

According to Prof. Kemmerer's estimate, which is quoted approvingly by the Council, there was only a "cash reserve" of 6.6% to cover the 28 billion deposits of the 30,000 member and non-member banks, which figured in dollars amounts to \$1,850,000,000. Either the Professor's figures or the Board's figures are wrong; or else the Professor means one thing by "cash reserves" and the Board another.

The Professor's estimates, both as to the amount of bank deposits and cash reserves, can not be confirmed by the official reports. The official reports show that the 30,000 banks had on June 30, 1920, deposits amounting to \$37,683,563,000, and that they held \$1,076,000,000 in their vaults, of which about \$400,000,000 was legal tender money. If this cash in their vaults be added to the \$1,827,000,000 of bank reserves carried with Federal Reserve Banks, we have a total of \$2,900,000,000 which would be a reserve of more than 10%, for \$28,000,000,000 and about 8% for \$37,000,000,000.

It is true that the Federal Reserve Banks only held 35% of gold to cover these banks reserves. But this 35% of gold is not intended to be paid out to the member banks, nor has any of it ever been paid to them; it is intended only as security and to prevent expansion. The Board has the power on the application of the

Federal Reserve Banks to issue Federal Reserve notes for the purpose of supplying the demands of the member banks for currency. It is these notes that are intended to be paid to the member banks, and to be paid by them to their depositors, and not gold. It would seem that the entire \$1,827,000,000 should be considered in estimating the "cash reserves," and not merely the 35% gold. If the entire amount of the reserve account is considered, the percentage of reserve was then normal, and there should have been no artificial contraction in order to increase it.

If the whole amount of the reserve account carried in the Federal Reserve Banks is not to be considered in estimating the ability of the member banks to meet the demands of their depositors, then our banking system as a reserve system is a failure; and if the Federal Reserve note is to be entirely eliminated as a factor in the situation; if it cannot even be counted as cash, then it is a failure.

The Federal Reserve note is per se as good as any money we have; it is universally accepted as cash without discrimination. It appears that a large part of these notes are covered by a deposit of gold to the extent of their full face value. The objections to these notes are the limitations and conditions that the law has impressed upon them. I submit that the Federal Reserve note should be considered in estimating the bank's ability to meet the demands of its depositors, but I admit that it does not measure values or form a basis of credit; to this extent I agree fully with the Council.

The Professor must mean by "cash reserves" the amount of visible and available **legal tender money** in circulation. He must have eliminated from his calculation all of the Federal Reserve notes held in the vaults of the banks, and all money hoarded by the Federal Reserve Banks except the 35% gold held to secure deposits. He must have referred only to the actual, real legal tender money in circulation. If he includes the Federal Reserve note in his estimate, and if as a matter of fact we only have \$1,850,000,000 of money in actual circulation, then we have a per capita of \$18.50, about

one-half our pre-war circulation. Attention is called to the facts that this conference of the Council was attended by the members of the Board, the report was made to the Board, and that it is included in the Board's official report; and that the correctness of the Professor's estimates are not challenged.

\$18 Per Capita Circulation.

If this puzzling private estimate of the Professor, which bears the apparent sanction of both the Board and the Council, is true, and if it is in fact the true and correct method of estimating the "cash reserves," it is indeed an alarming situation, for it means a per capita circulation of cash of about \$18. Attention is also called to the fact that this officially endorsed estimate fully confirms the argument of both Mr. Williams and myself to the effect that there had been a contraction of the currency instead of an expansion.

Some times these eminent financiers tell the plain truth. They probably tell the truth here. There may have been in fact but \$1,850,000,000 of visible, available, "cash reserve." (I am unable to locate even the amount of legal tender money from the official reports). If then according to this report 6.6 per cent in amount of the depositors of the banks had drawn out their cash at one and the same time, they would have drawn all of the money that the banks and the Federal Reserve Banks together could have paid them. I have heretofore called attention to the fact that there was only 3 per cent of money in the **vaults** of the 30,000 banks for the payment of deposits, but my estimate did not refer to the reserves of the Federal Reserve Banks.

This officially endorsed estimate of Prof. Kemmerer's probably did not take into consideration the amount of money in the pockets and tills of the people, which is indeterminate, and which, perhaps, exclusive of Federal Reserve notes, then amounted to between \$200,000,000 and \$300,000,000 more. It probably did not take into consideration the Federal Reserve notes, then amounting to about \$3,200,000,000. It probably did not take into consideration our stock of gold, then amounting also to upward of \$3,000,000,000, except the small

amount of it actually held in the vaults of the banks and the 35 per cent reserve for deposits in the vaults of the Federal Reserve Banks. They could not have taken these monies into consideration for the obvious reason that they place the entire volume of money of all kinds available for the liquidation of bank deposits at \$1,850,-000,000; which is far less than the amount of the Federal Reserve notes and gold. They confirm my argument that this gold has been killed and buried and can not be considered for any purpose, and they discredit the Federal Reserve note even more than I do.

They probably did not use the official figures of the Comptroller, the Treasurer, or of the Federal Reserve Board itself, because dead gold is counted in all of these reports as "money in circulation," and because the short lived, ever-changing, illusory, Federal Reserve note is counted as real money in all of these reports; and for the further reason that all of these reports show more money in circulation than there is in fact. They probably here state the plain, unvarnished truth, not quite as plainly as it should be stated, it is true, for you must take your pencil and multiply \$28,-000,000,000 by 6.6 in order to ascertain the exact truth. They, the seven members of the Federal Reserve Board, and the twelve members of the Federal Advisory Council, here officially, fully, and conclusively confirm all of my statements and arguments on this subject in every particular.

After eliminating the dead money and the illusory Federal Reserve note, we only have, according to the Advisory Council and Board, \$1,850,000,000, or about \$18 per capita for our credit structure to rest upon, and for our yard stick, or measure of values. When they get through retiring the Federal Reserve notes, which are still being liquidated at the rate of about \$100,000,000 monthly, the Lord only knows how much money we will have left. At this time, Sept. 20, 1921, our gold holdings are nearly twice the volume of the legal tender moneys of all kinds that we have in circulation. Our gold is piling up week by week, but under the operation of our beneficent (?) Federal Reserve System and international banker system, not one dollar

of it is going into circulation, and not one dollar of it is of any service to us.

The situation is of such momentous importance, it is so alarming that congress should institute an immediate investigation to ascertain what has become of all of the money that we formerly had, and of the immense stock of gold that we have received in recent years. According to official reports, we are supposed to have \$8,000,000,000, including Federal Reserve Notes, but according to this officially approved private report we actually have only \$1,850,000,000, visible and available of cash reserves. Where is the balance of it? If all of it were available and legal tender, the cash reserves to secure deposits would be about 30%; and if half of it, about 15%.

The seriousness of the situation is well illustrated by the fact that it is one of the causes assigned for the action that has brought on this crisis. It is indeed the only plausible excuse they have. But it should never be forgotten that they themselves created this situation. The Federal Reserve banking system is the chief sinner of them all, and then comes the private bankers and the international bankers; among them they have the money that is being hoarded.

"Discriminating Deflation."

The answer to "Topic No. (1)" continues:

"Taking the index numbers of the U. S. Bureau of Labor Statistics as the most comprehensive and most scientifically prepared of the index numbers covering the entire period 1913 to 1919, inclusive, we may say that the wholesale price level increased from 1913 to April 1920, 165 per cent; in other words, if one calls the dollar of 1913 a 100 per cent dollar in its purchasing power over commodities at wholesale, the dollar of today is approximately a 38 per cent dollar. * * * * This was the condition of affairs when the Federal Reserve Board undertook to exercise its power over credit for the purpose of protecting personal and commercial interests. All experienced business men knew that prices would seek a lower level by gradual process if good judgement and conservatism prevailed, or by a com-

mercial debacle if the illogical, ill-considered and extravagant methods brought about by the war were permitted to continue. Under these circumstances, and none too soon, the Federal Reserve Board exercised its power over credit in order to constrain bankers and business men to exercise conservatism and help strengthen commercial and financial conditions. The Board in so doing have accomplished a great work and have demonstrated one of the powers for good which the Federal Reserve System possesses. Naturally their first move was in the direction of strengthening the bank's reserves. That means strengthening the bank and putting it in a liquid position—in the position in which a well-managed bank should always be to respond to the demands of its clientele. Strengthening the reserves meant curtailing credit and, *ipso facto*, would prevent further expansion. **No one wishes to stabilize existing conditions, but to get away from them to a safer and more conservative level.** This would naturally bring about a **discriminating deflation** by extending credit to such industries as were essential and needed support in order to preserve the general business welfare, and by restraining credit to activities which, though perfectly legitimate, were nevertheless nonessential to the general welfare and should be promoted by the funds of their owners and managers, and not be allowed to absorb commercial resources needed for the financing of business closely connected with the public welfare."

This uncovers the colored gentleman in the woodpile. It is this 38 per cent. dollar that troubles them. It is so large in their vision as to obscure every thing else. This was the condition of affairs when the Federal Reserve Board undertook to exercise its power over credit, etc. A world crisis? No. The Japanese silk market? No. This, the 38 per cent dollar, and the 165 per cent. wholesale price level, was the condition of affairs when the Board took charge, and which the Board undertook to remedy. The fundamental thing was the high price of commodities, and the low price of money. Everything else was incidental. No one wishes to stabilize the existing conditions (prices) but to get away from them to a safer and more conservative level,

and the Board has done "a great work" in doing so. They sought to attain all three of the objectives mentioned in "Topic No. 1"; and in attaining one they attained all. Strengthening the reserves meant curtailing credit which ipso facto would prevent further expansion, and which, ipse facto, would naturally bring about a discriminating deflation" (whatever that means). This differs from their present arguments wherein they sometimes admit that they undertook some sort of mild action to protect their reserves, but they earnestly insist that they kept on extending credit, especially to agriculture, and that they did not deflate values.

If the Board really had it in mind at that time to stabilize the existing situation by the prevention of further expansion, they were plainly directed by the Council not to stop at that point, but to deflate by "reducing the total volume of credit". The Council told them very emphatically that no one wishes to stabilize existing prices, but to get away from them to a safer and more conservative level, and that this would bring about "discriminating deflation." What does this mean if it does not mean to apply pressure and to continue to apply it until prices are forced down to a more "conservative level"?

Down, Down with Credit.

It may be remembered that about this time there was a great deal said in the financial columns of the press (apparently inspired) about stabilizing values at about 70% above the prewar level. There has been none of that recently. The Council determined at this September Conference that there would be no stabilization of values and that they must go to the bottom.

"(2). Can a substantial reduction in the volume of credit be effected without injury to the legitimate business of the country and without curtailment of essential production?

"Recommendation. A substantial reduction of the volume of credit can be effected without injury to the legitimate industry of the country and without curtailing of essential production. Not only this, but such reduction in volume of credit may be made to materially

strengthen the credit fabric of the country as a whole.

"The first and most beneficent effect of the act of the Federal Reserve Board in controlling credit was to arrest the attention of the whole country and to incur high commendation from conservative forces and incur criticism ranging from mild to violent from certain sections or interests. It made everybody stop and think, and the discussion which ensued showed plainly that the board was right. The psychological attitude of the country towards business immediately began to change, and from wild extravagance and a disposition to enter into new and ill-considered business, there came about a feeling of conservatism. People began to ask themselves just where they stood, how much they were really worth, and how they would fare if called upon to liquidate their outstanding obligations. Drafts drawn against goods shipped abroad were not always paid, and some times returned. People began to repudiate their contracts to receive goods, especially in cases where the price had receded. Competition in business has brought about a most unfortunate practice—people order goods and then if it does not suit their convenience, they refuse to receive and pay for the same. This has continued so long and is so much the custom that manufacturers and wholesalers hardly expect to hold their customers to rigid fulfillment of their contracts if a change in the market or a change in business conditions make it desirable for them to repudiate. Such repudiation of purchases began to happen generally, and manufacturers and wholesalers found themselves possessed of large volumes of very high priced goods which they could not market without loss. That is the condition of the mercantile industry in our country today. They have for years dictated the price of their goods and they are now endeavoring to dispose of them to the public without material abatement in prices. It is generally realized that they can not accomplish such results; recessions in price have already set in and are bound to be more pronounced. Business people will have to liquidate their goods in order to liquidate financial obligations. This will bring about competition in selling throughout the country, something that has not existed for several years,

and this competition in its normal and natural course will clarify the situation and bring about normal conditions."

Clearly this was written for public consumption at a time when the "discussion which ensued showed plainly that the Board was right" and the only criticism, ranging from mild to violent, was from certain sections or interests. How delightfully satisfied. They and their professors, economists, and financial writers were then doing the discussing, and they were highly pleased with themselves and the progress of their work. They realized before the mass of the people did what it all meant. They knew then that "the recession of prices which has set in is bound to be more pronounced"; that business people will have to liquidate their goods in order to liquidate financial obligations; and that this will bring about competition in selling throughout the country, something that has not existed for several years, and that this meant a forced sale of goods on a demoralized market, and that the bottom would drop out of values.

Up, Up with the Dollar.

They gloat in glee over the prospect, for it meant that the 38 cent dollar would be restored to its pre-war values; it meant that the buying power of the salaries of the economists, professors and financial writers would be doubled; it meant that the bonds, notes, and other securities which had been acquired with 38% dollars must be redeemed in 100% dollars. What cared they if it bankrupted the farmers and the business men, if it made it difficult for the government to provide the necessary money for its operation, if it caused unemployment, misery, suicides, sickness, and death. This is all but the vicarious atonement that must be made upon the golden altar of the dollar.

They refer in a rather superior and critical way to the fact that the policy which they inaugurated caused the cancellation of orders, which resulted in goods being left in the hands of the original sellers that must now be sold at a sacrifice. This was unfortunately true on a very large scale, both as to goods sold at home

and abroad. Great stocks of merchandise and raw material then in warehouses in foreign countries and in transit to foreign countries were forced on the market as the result and sold at very much less than the market. **They were bought by foreigners with money and credit provided by foreign banks. Even Germany was able to provide the money and credit to make some of these purchases. No wonder the markets of the world were shaken.**

I wonder if these gentlemen then fully foresaw the consequences as they have actually developed. It is almost beyond belief that men could be so selfish, so indifferent to the interests of their fellow men, and of their country, and to human suffering. But the fact remains that they knew that they had undermined the foundation and basis of values by hiding and destroying the money of the country; they knew that commodities would be forced on the market, and that prices would be demoralized, for they say so; they knew the psychological effect to which they refer. The fact remains also that they have continued, and do now continue, their deflation program, knowing what it has done and is doing.

In justice to the Board it should be stated that they evidently feared that a "substantial reduction in the volume of credit" would injure the legitimate business of the country and curtail essential production. They put the proposition squarely up to the Council and they were squarely told by the Council that it would do no such thing. The Council then proceeds to make an argument which reveals that their answer is not true, and that they then knew that it was not true.

They say that manufacturerers and wholesalers find themselves possessed of large volumes of high priced goods which they cannot market without loss! that they have heretofore dictated prices which they can not do; that "recessions in price have already set in and are bound to be more pronounced; and that business people will have to liquidate their goods in order to liquidate financial obligations". That tells the whole story. How is it possible to force goods on the market

without "injury to legitimate business, and without curtailing production"?

If these bankers knew that the effect of their "credit control" scheme would be to force the manufacturer and wholesaler, and likewise the producer, to sell, and that it would force them to sell at any price they could get, and that the effect would be to bring down prices, they also knew that the same "substantial contraction in the volume of credit" would affect the buyer, and that he would be unable to buy except in small quantities, and at greatly reduced prices. They knew, or ought to have known, that the effect would be exactly what it has been; and that the certain, inevitable result would be a crisis throughout the world.

They See Prices Coming Down.

Question (3) under Topic (2):

"(3) To what extent has one or more of these objects been attained in each district and in the country at large?

"Recommendation.—The object sought to be accomplished by the Federal Reserve Board has been and is being accomplished in all districts.

(4) To what extent is it necessary to distinguish between the immediate objective of the policy of credit control and the remoter objective, such as reduction in the cost of living?

"Recommendation.—The immediate effect of credit control is to safeguard the situation, to enable all business to function normally, and the Board should at all times make this clear. Although a logical result may be lower prices and lower cost of living, it should distinctly appear that the Board does not seek to control or regulate prices, but leaves the price level to competition under the law of supply and demand."

I ask the reader to carefully read and analyze this question and answer, and to note the fact that they do here admit in express language that at least one "objective" is a "reduction in the cost of living." What is meant by "distinguish between the immediate objective and the remoter objective"? Do they refer to the matter of making this distinction in the execution of

their policies, or is it to make this distinction in telling about what they have done? Is the Board here asking the Council to instruct them as to what they shall tell the people, the sort of propaganda they shall start?

Evidently the Council interpreted the question to mean **propaganda** for they direct that "the Board should at all times make it clear" that their purpose is to "safe-guard the situation"; and that "it should distinctly appear that the Board does not seek to control or regulate prices, although a logical result may be lower prices" etc. "Logical result" means necessary, inevitable result; "make it clear" means the **statement** of the transaction; "distinctly appear" means the appearance or coloring that shall be given the transaction in the statement of it. They are directed to say that the lower price level is due to "competition under the law of supply and demand."

A Propaganda of Deception.

In order to truly interpret the meaning of this remarkable question, and still more remarkable answer, you should read them in the light of the answers to Sub-Division No. 1, Topic No. 1, where the Board is expressly directed to reduce the "total volume of credit" until prices are brought down to a "safer and more conservative level"; and also in the light of the answer to Sub-Div. No. 2, Topic No. 1, where they state that the "recessions in prices (of products in the hands of the producer and wholesaler) have already set in and are bound to be more pronounced, and that people will have to liquidate their goods in order to liquidate financial obligations."

Here, apparently, is official direction to start a propaganda of lying and deception; and they are even told what to say. Evidently the collapse in the Japanese silk market had not then impressed them, for nothing is said about it. Probably they had not at that time bankrupted many of the foreign buyers, for nothing is said about the insolvency of European credits. It seems that they did not even then see the collapse of markets and the crises that resulted from their action, for they do not mention the world crisis that they have found so much

consolation in since. If they had known or thought of any of these things at that time, the answer to question 4, Topic 2, would probably have read "the Board shall at all times make it clear and to distinctly appear" that the action taken was due to a threatened world crisis, etc., etc.

The Council suggests to the Board and their co-operating banks, and all of their financial writers, professors, and economists, that they account for the lower level of prices upon the stale, old over-worked theory of "competition under the law of supply and demand"; they overlooked the fact that the conditions they created would eliminate and destroy all demand. They have assigned every other reason that the human imagination can conceive, except two; one is the true one, and the other is "competition under the law of supply and demand"; it is so ridiculous and absurd under the conditions that have since obtained that we have been spared it for once.

The Example of Talaat Bey.

This is truly an amazing official record. It is suggestive of the official directions of the late lamented Talaat Bey brought out in the trial of the young Armenian who assassinated him, recently published in the daily press. Talaat Bey openly pretended to the allies that he was moving the Armenian women and children to places where there was food and safety. He secretly instructed the officers in charge to treat them with great kindness in public, but to take them to a certain un frequented place and there kill and bury them. When accused of the crimes he denied them with much bravado and injured innocence; so much so that the governments did not really know the truth until revealed by his written orders. Talaat Bey admitted in his secret orders that his directions were inhuman and cruel, but justified them on the ground of necessity and for reasons of state. We have here the same "safety" pretense, the same ulterior purpose of destruction, and the same injured innocence.

Although these sapient bankers knew that the inevitable and "logical result would be lower prices," with consequent disruption of industry, unemployment,

bankruptcy, misery, despair, death and suicide, they adopted their deflation program for reasons of state, as coldly and as cruelly as did Talaat; and they have pursued it and do now pursue it as relentlessly and as ruthlessly as did Talaat; and they have lied about it as brazenly, as did Talaat; and they no doubt "kid" themselves into believing that they were acting for their country instead of their own ambitious designs, as did Talaat. But Talaat was a "piker" in destructiveness as compared to them. (The young man whose mother was thus murdered was acquitted by a German court, be it said to its honor).

The reports of the Federal Reserve Board as published in their bulletin show the extent "to which one or more of these objects have been attained," and the extent "to which the remoter objective of a reduction in the cost of living has been attained." The immediate objective was to restore the pre-war purchasing power of the dollar, and the "remoter objective," (and it was only slightly remoter) was to "reduce the cost of living." The following table is taken from the Federal Reserve Bulletin for July 1921, page 820. It shows the wholesale prices for the staple products of the farm on the dates named:

(See Table on following page)

AVERAGE MONTHLY WHOLESALE PRICES OF COMMODITIES.

(Average price for 1913—100)

| Year and Month | Corn No. 3 Chicago | | Cotton, middling New Orleans | | Wheat, No. 1 Northern Spring Minneapolis | | Cattle, steers good to choice Chicago | | Hides, packers heavy native steers, Chicago | | Hogs, light Chicago | |
|----------------------|-----------------------------------|-------------------|----------------------------------|-------------------|------------------------------------------------|-------------------|---------------------------------------------|-------------------|---------------------------------------------------|-------------------|-----------------------------------------|-------------------|
| | | | | | | | | | | | | |
| | Average Price Per Bushel | Relative Price | Average Price Per Pound | Relative Price | Price Per Bushel | Relative Price | Average Price Per 100 Pound | Relative Price | Average Price Per Pound | Relative Price | Average Price Per 100 Pound | Relative Price |
| 1913 | \$0.6155 | 100 | \$0.1270 | 100 | \$0.8735 | 100 | \$8.5072 | 100 | \$0.1839 | 100 | \$8.4541 | 100 |
| May, 1920 | \$1.9825 | 322 | .4038 | 318 | 3.0750 | 352 | 12.6000 | 148 | .3538 | 192 | 14.7550 | 175 |
| May, 1921 | .6090 | 99 | .1178 | 93 | 1.4923 | 171 | 8.4250 | 99 | .1188 | 65 | 8.4560 | 100 |

Bradstreet shows the reduction in all staples, both of farm and factory, as follows:

| | Feb. 1, 1920. | July 1, 1920. | June 1, 1921 |
|-----------------------|---------------|---------------|--------------|
| Breadstuffs | \$0.2257 | \$0.2653 | \$0.1437 |
| Live stock | .6610 | .6035 | .3855 |
| Provisions | 4.4003 | 4.4308 | 2.7256 |
| Fruits | .4806 | .4335 | .3635 |
| Hides and leather .. | 2.7700 | 2.5300 | 1.4600 |
| Textiles | 7.1913 | 6.5418 | 2.6135 |
| Metals | 1.0714 | .9703 | .6560 |
| Coal and coke | .0130 | .0214 | .0139 |
| Oils | 1.0875 | .9835 | .4798 |
| Naval Stores | .3272 | .2396 | .0941 |
| Building materials .. | .2370 | .2406 | .1791 |
| Chemicals and drugs | 1.1855 | 1.2635 | 1.0719 |
| Miscellaneous | 1.2185 | .8290 | .4303 |
| | | | |
| Total | \$20.8690 | \$19.3528 | \$10.6169 |

The following statement is taken from the July Bulletin of the Federal Reserve Board:

"But the outstanding fact remains that the reduction in both the value and volume of our export trade has been most marked in recent months, having steadily declined in every month of the present year. Indeed, if our export trade for the coming 12 months should continue at the rate reported for May, it would amount in value to less than one-half that of the fiscal year 1920, and to but little more than one-half the figure for the fiscal year just past."

The Federal Reserve Board state on page 11 of their 1920 report that this country had felt the reduction in prices in a "much more moderate measure than has been the case elsewhere". The following is a composite of two tables published in their July Bulletin by which they again contradict and disprove their official report:

GENERAL LEVEL OF WHOLESALE AND RETAIL PRICES IN DIFFERENT COUNTRIES, IN MAY 1920, AND MAY 1921

| Country | Wholesale | | | Retail | |
|---------------------------------------------|-------------|-------------|----------------------------------|-------------|-------------|
| | May 1920 | May 1921 | Per- centage De- crease | May 1920 | May 1921 |
| United States (Federal Reserve Board)... | 264 | 142 | 46.2 | 211 | 142 |
| England (Statist) | 305 | 191 | 37.4 | 241 | 228 |
| France | 550 | 328 | 40.4 | 378 | 317 |
| Italy | 660 | 547 | 17.1 | | |
| Germany | 1,473 | 1,407 | 4.5 | 1,267 | 990 |
| Sweden | 361 | 218 | 39.6 | 294 | 237 |
| Norway | 368 | 294 | 20.1 | | |
| Japan | 272 | 191 | 29.8 | | |
| Australia | 225 | 166 | 26.2 | | |
| Canada | 210 | 183 | 30.4 | | |
| India | 210 | 184 | 12.4 | | |

Attention is called to the fact that prices in this country were not so high to begin with as in the European countries, where the greatest percentage of reduction has occurred, and yet our percentage of reduction has been the highest of them all. It should be noted that in Japan, Australia, Norway, Canada and India, where prices were about on a parity with ours, the percentage of reduction has been only about half of ours. It should also be noted that Germany now maintains the highest prices of any other country in the world. It is in fact today the most prosperous country in the world. The imagination can not picture Germany's desperate situation if inflicted with our banking system and our Board; it would mean her certain and complete destruction.

The following table of bankruptcies is made up from the April, May, June and July Federal Reserve Bulletins, which show them for the preceding month only, and which are the only ones now in my possession. I prefer to use the Board's own statistics, when possible, even in preference to the more complete statistics of the mercantile agencies, because they show that they have official knowledge of conditions, and because, too, they can not very well deny their own figures:

| Month | Number | | Liabilities | |
|------------------------|-------------|--------------|----------------------|---------------------|
| | 1921 | 1920 | 1921 | 1920 |
| February | 1,641 | 492 | \$30,259,119 | \$9,763,142 |
| March | 1,336 | 566 | 67,408,909 | 12,699,325 |
| April | 1,487 | 504 | 38,567,769 | 13,224,135 |
| May | 1,356 | 547 | 57,066,471 | 10,826,277 |
| Total | 5,82 | 2,109 | \$223,895,598 | \$46,412,879 |

The Board's records do not reveal all of the destruction they have wrought. In fact, it can not be shown by any record, or even approximated. No record is kept of human misery and of human despair and of human poverty, and of the sickness and death that result from these prolific disease breeding causes. Secretary Davis recently testified before a congressional committee that there are now 5,735,000 men out of employment. Contrast this with Germany where only 4% are unemployed.

The United States Public Health Service reports in the press as follows: "The latest reports of the U. S. Health Service show that pellegra, which results from these conditions (a lack of sufficient nutritious food) will this year claim about 100,000 victims, of whom at least 10 per cent will die, and that unless radical relief measures are taken it will take a still heavier toll from the already enfeebled population in 1922." This starvation is among the tenant farmers of the south, and represents but a small fraction of the actual suffering among them.

The press carried the following copyrighted dispatch on Aug. 15, 1921:

"Suicides in the Whole Country.

"Here are the figures for the six months of 1921, and they are sufficient to cause unusual anxiety:

First six months First six months

| | 1920 | 1921 |
|------------------------|--------------|--------------|
| Men | 1,810 | 4,527 |
| Women | 961 | 1,982 |
| Boys | 88 | 214 |
| Girls | 137 | 293 |
| Total | 2,996 | 7,016 |

"Persons who have probed the psychology of the increasing suicides say many of them are due to lives broken by the war. Then there is the vast number of unemployed—chiefly men who scan the Sunday papers for positions, seek the place Monday, find it already filled, and with another week of hunger ahead of them they keep solitary tryst with the grim stranger that comes but once. This explains why Tuesday has become the chief suicide day, at least in the cities."

Suicides have increased about 135 per cent, bankruptcies about 180 per cent. All of this, and infinitely more, for the preservation of the "gold standard," as Gov. Harding calls it; but in fact to restore the pre-war purchasing power of the dollar. The "inefficiency and indifference of labor" resulting in a lessened production of 10 per cent of certain essentials, public and private extravagance, advancing prices and wages, are insignificant evils beside the ones they brought upon the country.

The destruction of property, health, joy and life here in the United States is only a fraction as compared with the world, for we were then better able to endure the conditions they created than the people of other countries. We had savings and a surplus to draw from, which the people of other countries did not have.

No argument should be needed to prove that inflation, even though attended by extravagance and high wages and prices, is far preferable to contraction, with its low prices and unemployment, despair and death. We had what they called "inflation" up to May 18th, 1920; we have had deflation since; we had high wages and prices prior to that time; we have had low wages and prices since; we had the 38c dollar prior to that time; we now have the 100c dollar.

Every man can determine for himself whether he prefers the conditions that obtained prior to May 18, 1920, or those that now obtain. It is easy to name the classes that are interested in expansion, high values, and cheap money, and those who are interested in deflation, low values, and dear money. On one side of the docket are the international banker, the money lender, the salaried man who is sure of his job, and the

man with fixed income, constituting perhaps as much as 5 per cent of our total population. On the other side are the farmer, the wage earner, the manufacturer, the business man, and the country banker, as distinguished from the Wall Street fraternity, constituting at least 95 per cent of our population.

A Banker's Plea for Contraction.

Mr. Geo. E. Roberts, Vice President of the National City Bank of New York, a former treasury official, and a recognized monetary authority, stated the issue frankly and clearly in the issue of November, 1920 of the "Two Americas," one of the publications maintained by the National City Bank for the purpose of giving us free instruction on the subject of finance:

"Practically all authorities upon monetary science agree that an increase of the amount of money in circulation or of bank credit circulating as money will have of itself the effect of raising prices. * * * * * Some people have been holding that the new level of prices and wages was permanent. I do not think so, and I do not want to believe so. I think it would work a grave injustice to many thousands of people. If the recent level of prices had been permanent, the values of all money and all obligations to pay fixed sums of money would be depreciated approximately one-half. It would mean that all the savings of the people, which are in the form of savings bank deposits, promissory notes or life insurance, are in large part, perhaps one-half, wiped out as with a sponge. It would mean that the retired farmer or business man who has converted his property into bonds or mortgages would find the interest as he received it, and the principal when it was paid back, approximately one-half of the purchasing power that he bargained for, and that he thought he possessed."

Every word of this is true. If the contraction which the "Board" and bankers have brought about will double the value of money and credits, then it is equally true that it will reduce the value of commodities, the things that money will buy, to the same extent. My cattle will be half value, but the mortgage against them will

remain the same. My land will be worth half, because the value of its crops will be worth half.

The Cause of High Prices.

The value of money is measured by the wages, lands, and chattels, etc., that it will buy; the value of wages, lands and chattels are measured by the money they will bring. In making the statement that the value of money, etc., has been depreciated 50 per cent, Mr. Roberts distinctly recognizes that the value of the things that money will buy has been doubled, and it is of that he complains.

The general high level of wages and prices at that time, as compared with pre-war prices, was due to the war; the production and sale of the things that the world needed. It was due to legitimate and natural and not artificial causes. Much of the securities then in the hands of the poor "bond holders and retired farmers" (we haven't any of them in the South) were acquired with fifty cent dollars. The deflationists have by an artificial contraction of credit, by their "credit control" policy, reestablished the value of money, notes, etc. In doing so they have necessarily "wiped out as with a sponge perhaps one-half" the wages of labor, and the value of the wares of the merchant, and of the farms and the products of the farms, and of the factories and the products of the factory.

This is exactly what they designed to do, for there is no other possible way to reestablish the value of the dollar. If it does not buy more wages, lands and chattels, it is not increased in value; and the value of wages, lands and chattels must be reduced, if it is to buy more of them. If money and notes are doubled in value, by the same token wages, lands and chattels will be reduced in value one-half. It is an economic impossibility to have high priced dollars and high priced wages and values at one and the same time. We must choose between them. The issue is whether we prefer the value of money and wages and property that prevailed on May 18, 1920, when money was cheap, or whether we prefer the values that prevail now, Sept. 20, 1921, when money is high.

While this is a correct, it is not a full and comprehensive statement of the issue. We then, on May 18, 1920, had values and adjustments to those values that had been established by the operation of natural forces, and the Board and bankers then, through their control of money and credit, undertook to reestablish those values at the prewar level by artificial means. They thereby doubled the value of money, notes, etc., aggregating about 100 billion dollars, which were held by less than 5 per cent of our population, and they reduced by approximately one-half the value of all other property, owned by the 95 per cent, amounting to about 400 billions of dollars; they added 50 billions to the coffers of the 5 per cent, and they "wiped out as with a sponge" 200 billions of values belonging to the balance of us. The issue therefore is whether we shall restore, as far as it is possible, the status quo as it existed on May 18, 1920.

The argument is sometimes made that we still have our lands, factories, railroads and other property, and that there has therefore been no destruction of wealth. This is so palpably false that it scarcely merits an answer. No argument is needed to convince those of us who own property that we have lost money notwithstanding the fact that we still have the property. Property, both real and personal, is worth what it will sell for in money on the market. The market value of real property, including factories, mines, railways, etc., is measured by its net productive value, or the value that it will pay a reasonable interest on, formerly estimated at 6 per cent. If your cattle or merchandise or other property would sell for \$2,000 in money on May 18, 1920, that represented its value at that time; if now the same property will only sell for \$1,000 in money, that is its present value, and your loss is \$1,000, although you still have the same property. If your farm would pay \$10 an acre net revenue or rent in 1919, and will now only pay \$5, it has depreciated in value approximately one-half, for it will sell on the market for approximately one-half the money it would formerly bring.

If all of us owned the same amount of money and property, and none of us owned any money, the read-

justment (as they call it) would be comparatively unimportant. The injustice and inequity arises out of the fact that this is not true. The man who had \$2,000 of property on May 18, 1920, who then owed \$1,000, now finds his margin or equity wiped out, that his property will not pay the debt, and that instead of having a margin or equity of \$1,000, he has nothing. The mortgage holder's money will buy his property for \$1,000 which had formerly been worth \$2,000. If we all had the same relative amount of money and property no one would be interested in bringing about deflation and we would not have had it. We have it for the simple reason that it does benefit the non-producer at the expense of the producer.

The property of the banks and railroads are now worth approximately their value on May 18, 1920, because their earnings have continued approximately the same as at that time. All other kinds of property have depreciated in value, some more and some less. It is impossible at this time to make an accurate average of the percentage of depreciation, or to state the aggregate amount of it. When the adjustment to the reduced volume of money is finally completed it will be found to correspond to the reduction that has been brought about in the volume of money in circulation. It does not yet appear to be equal to 50 per cent, as stated by Mr. Roberts; it has been estimated at 25 to 30 billion dollars, which is only about 5 per cent, but this is far too low. This estimate would appear to have reference only to the crops and other personal property in process of being marketed during the fall of 1920 and spring of 1921.

The Cost of Deflation.

The value of all kinds of personal property, including the stocks of industrial corporations, except money, bonds and notes, have depreciated approximately 50 per cent, but the value of land has probably not yet depreciated so much. Our values as they stand today appear to average about three-fifths of their value on May 18, 1920, which means a loss or destruction of approximately 200 billions of wealth, on the assumption

that the total value of the wealth of the country on May 18, 1920, amounted to 500 billion dollars.

Our national annual income on the basis of 500 billion at 6 per cent would be 30 billion; and on the basis of 300 billion it would be 18 billion. Estimating the annual expenses of the national government at \$4,500,000,000, it means that on the present basis of values, 25 per cent of our annual net income must go to pay the expenses of the national government, whereas on the basis of our income on May 18, 1920, only 15 per cent would be required for that purpose. On this basis, after paying government expenses, our net annual income would now be \$13,500,000,000, whereas it would have been, but for the work of the deflationists, \$25,500,000,000. As our national income diminishes, national taxes will take a larger percentage of toll.

The sum of 200 billion dollars is so vast as to stagger the human imagination. It is more than the combined war expenses of the British Empire, (including Canada, Australia, etc.), France, Italy, Russia, Japan, and the United States; it is more than seven times the amount of the reparations imposed upon Germany; it is more than the combined national wealth of Russia, Italy, Japan, Germany, Greece, Belgium, Poland, Roumania, Bulgaria, and Austria Hungary; it is more than six times the amount of all the bank deposits of the United States; and more than twenty-two times the volume of all of the gold of the world.

This is indeed the crime of the ages. No such stupendous destruction of wealth; no such colossal vandalism has ever before occurred in the history of the human race. There is no penalty for it except public sentiment and social ostracism, which should be employed to the fullest extent. The political party or business institution that recognizes, supports or harbors the men responsible for it, or any one of them, should not have our recognition or support.

If all of this loss and destruction is due to an inevitable and natural reaction; if it is but war's "aftermath" and "inheritance"; if it is only the "inescapable descent from heights" which were abnormal and artificial, as stated by President Harding in his speech to

to Unemployment Conference, then Governor Harding and the Board and the bankers are justly due our thanks, to which they claim they are entitled, and not our censure. If President Harding's view is correct, then the Board and bankers have not done the things they undertook to do and thought they had accomplished; their May conference was a fiasco, and their September jubilee a mistake; if his view is correct, he is right in refusing to dismiss Governor Harding and the hold-over members of the Board.

It is undoubtedly true that the prices of some products had been forced up abnormally by manipulation and profiteering; these were due for a fall upon the termination of the artificial causes that created and supported the advance. Prices generally were above the level of the dollar; they had been advanced and were being supported by the foreign demand more than by the volume of money in circulation; these were due to recede slowly until the money level was reached as Europe became self supporting and bought less from us. We were entitled to a period of a few years of high prices and prosperity, due to an abnormal domestic and foreign demand, during which prices would gradually work down to the level of the volume of money in circulation.

We are entitled to have double the pre-war volume of money and double the pre-war values; for we now have about twice the amount of gold that we had prior to the war, and we are therefore entitled to have twice the volume of money in circulation. Our money is based on gold, and as the volume of gold increases, the volume of our money and the values of our property should increase in the same proportion.

Rates for Rediscounts.

“(7) Inter-Reserve Bank rediscounts as related to the problem of credit control. Is the existing policy and practice with respect to such rediscounts satisfactory and sound?

... (a) To effect an approximate equalization of reserves?

Recommendation.—The existing policy with respect

to Inter-Reserve Bank rediscounts is sound and the Board is to be highly commended for the manner in which they have made it effective.

(b) At the same rate fixed for its member banks by the bank granting the accommodation?

Note.—When recourse was first had to inter-bank rediscounts it was thought that the value of a Federal Reserve Bank's indorsement was entitled to recognition in the form of a reduced discount rate. More recently this idea has been abandoned and rediscount transactions between Federal Reserve Banks are made at the rates established for member banks by the Federal Reserve Bank extending the accommodation.

The question now arises, however, whether a Federal Reserve Bank which has been able to maintain high reserves by reducing the demands for accommodation from its own member banks, which are its depositors, should be required to extend accommodations to member banks in other districts through the medium of their Federal Reserve Bank at the same rates as are established for their own members.

Recommendation.—The rate of such rediscounts should be variable and fixed by the Board from time to time, as the situation may appear or require, and without any special regard either for the profit or loss to the contracting banks. In the present situation we approve the action of the Board in fixing the rate of such rediscounts at 7 per cent."

The purpose of this is as clear as the noon day sun. They know that the money of the country is largely in New York and other financial centers, and that there is a limited supply of it in the Dallas, Atlanta, and other Federal Reserve Banks serving agriculture. They wish to discourage inter-reserve bank discounts; to limit the accommodation of the banks in the agricultural sections to the money in those sections.

Naturally this Council of deflationists approved this policy, and "highly commended the Board for making it so effective." It should not be forgotten that their conference in May and their deflation program was for the pretended purpose of "mobilizing credits for crop moving purposes." They mobilized them by discourag-

ing the Federal Reserve Banks that needed money to move crops from borrowing from those that had a surplus, another token of their love and affection for the farmer. This subject is worthy a more extended discussion than can be give here.

Squeezing the Holders of Liberty Bonds.

"Topic No. 2.—Loans secured by Liberty bonds and Victory notes.

(1) Is there any moral obligation resting upon any of the Federal Reserve Banks to establish rates lower than commercial rates for paper of this classification?

Recommendation.—It is difficult for this council to determine whether any moral obligation exists in any of the Federal Reserve districts. On the general proposition of moral obligation arising out of the methods adopted in the various Liberty bond campaigns the council is equally divided, voting 6 to 6.

(2) Would liquidation of loans of this class be retarded or promoted by the establishment of lower rates?

Recommendation.—The establishment of lower rates doubtless would retard the liquidation of loans by Liberty bonds and Victory notes."

This is the first evidence that we have of any division of opinion among them on any subject. It is to the credit of the six who voted to recognize this moral obligation. I venture the assertion that no twelve men can be selected at random from the different walks of life and different sections of the country who would divide equally on this subject. Bankers, least of all, should repudiate such an obligation, for the bonds were handled through them, the subscriptions largely solicited by them, and the promises made by them. I personally bought bonds through two banks upon their solicitation, and upon their distinct promise to carry them at 6 per cent until I could pay for them. I sold \$72,000 of these bonds at an average discount of 10 per cent.

The Board evidently adopted the view of the six who were in favor of repudiating this obligation. If the banks of the country had in good faith carried out their obligations to their customers these bonds would now

likely be selling near par. It is an awful thing, according to these self righteous pharisees, for a merchant to cancel an order that he can not pay for, but their own promises and obligations are to be measured by a different standard.

Reserve Note Issues.

"Topic No. 3.—Federal Reserve note issues.

(1) Is the note-issue policy of the Federal Reserve System subject to legitimate criticism?

Recommendation.—We regard the note-issue policy of the Federal Reserve System as sound and therefore not subject to legitimate criticism.

(2) What connection is there between changes in the volume of credit and the volume of currency?

(3) Is there any difference in relation to effect upon prices between the volume of credit and the volume of currency?

Answer.—It is not clear to the council just what is meant by these questions. They are too involved to admit of their being satisfactorily answered in the time at the council's disposal.

(4) Can the note-issue policy of the Federal Reserve System be properly charged with any important responsibility and in what way does the issue of Federal Reserve notes promote or assist inflation?

Recommendation.—An increase of the Federal Reserve note issue was made necessary by war conditions and doubtless had some influence in inflating prices, but in the opinion of the council there has been no undue issue of these notes."

There can be no mistaking the meaning of these questions, but they are indeed "involved," and it is no reflection on the members of the council, versed as they are presumed to be in the lore of finance, that they side stepped them. Of course they understood the questions, because their meaning is plain; but they did not know how to answer them. Evidently the Board and their economists did not know the answer or else they would not have asked the question. There is in fact no way to determine the value of the Federal Reserve note as a basis of credit and of values, because the note itself

has no permanency, the volume of it is in a constant state of flux, and is subject to control and manipulation.

It has some "influence on prices" as stated by the Council; so have bank acceptances, checks, and other credits that have a limited circulation as currency. It would be a reflection on the intelligence of these bankers and the Board to assume from the questions and the answer that they did not understand the relation of real money to credit and to prices. Indeed, in the very first part of this report, they assign as one of the reasons for their deflation program the fact that there was only a "cash reserve" of 6.6 per cent to support a credit superstructure of 28 billion dollars. Their whole deflation program shows knowledge upon their part that the foundation of values rested upon money and credit, and that values could be reduced by hoarding money and restricting credit.

There is an apparent exception to the rule in the fact that values continued high for a time in spite of the efforts of the board. Governor Harding furnished the explanation for this in his letter to Senator McLean, published in the report of the Secretary of the Treasury for the year 1919:

"The principal cause of the advance of prices before and during the war was the urgent need of the governments of the allied world for goods of all kinds for quick delivery in large volume, and the competition of this buying by governments with purchases by private individuals who failed to contract their expenditures at a rate commensurate with the growing expenditure of these governments. In the post-war period through which we are now passing the country has experienced rising prices owing, in part, to a general relaxation of the war-time regime of personal economy, resulting in an increased demand for commodities by individuals who restricted their purchases during the war but who are now buying in competition with export demand. In addition, accrued incomes and increased wages have led to heavy demands for commodities not of prime necessity, which have resulted in diverting labor and material from essentials to nonessentials."

Interesting as a further discussion of this report may be, enough of it has been shown to demonstrate the abuses that have been made of the Federal Reserve system, and to indicate the changes that should be made in the law. I desire to present this question comprehensively, but within as short a space as possible. I am mindful of the fact that the mere size of a book will often prevent its being read. I recognize, however, that the burden of proof is upon me to establish the "Crime of '20" beyond a reasonable doubt. The evidence should clearly establish the fact that the deed was committed designedly, "with malice aforethought," and that its consequences were well understood at and during the time it was being perpetrated. The official records previously discussed should, in themselves, be sufficient evidence. But in view of the fact that other direct, positive, conclusive testimony is available, the crime a grievous one, and innocence of it still pretended on the part of the Board, I submit in corroboration of the official records of the Advisory Council, although it may be redundant, the testimony of Messrs. John Skelton Williams and J. S. Wannamaker, given before the Joint Commission of Agricultural Inquiry in August, 1921.

Williams Pleads for a Liberal Policy.

I first offer a quotation from an official letter from Mr. Williams, one of the seven members of the Board, to Gov. Harding, dated December 28, 1920, published in the Hearings of said Commission, part 13, pages 130 to 133. This is a part of the official record of the Board:

"It was therefore wisely decided that an effort should be put forth at that time to curb the extension of credit for luxuries and nonessentials, while giving full and proper protection, as far as possible, to farmers and all industries and enterprises engaged in the production of the "essentials." On this point the Board was practically unanimous.

"Events, developments and conditions warn us to remember that a stoppage too sudden may be as disastrous as an explosion; that an unyielding barrier thrust into the path of a runaway machine may be hasten wreckage and assure a smash which skillfully regulated guidance might prevent.

"It is my strong belief that it is within the power of the Federal Reserve Board at this time, by the adoption of new, wise, liberal, and sound policies and the announcement of such

policies, to instill a feeling of confidence and hope and to check the spirit of demoralization which, unless arrested in time, may lead to disaster. • • •

"Nevertheless, the present emergency is so acute that I can not avoid the conclusion that a more liberal policy than is now being pursued would be justified. While there is a very great scarcity of credit in various parts of the country, we find that the reserves of the Federal reserve banks are now actually higher than they were a year ago, averaging 45.1 per cent for all the 12 reserve banks on December 23, 1920, against 44.8 per cent for the corresponding week in 1919.

"These banks have an unused lending power at this time (without reducing the reserve requirements) of about \$700,000,000; and by waiving or reducing their requirements as to reserve by only 10 per cent, their lending power could be increased to about \$2,500,000,000.

"The business interests of the country, agricultural, manufacturing, commercial, and all other have, during the past year, sustained a strain and have endured a shrinkage in value which have been unparalleled in the commercial and economic history of any country. • • •

"My estimate is that the shrinkage in values in this country from the highest prices of 1919-20 to the low of today in the year's products of our fields, mines, factories, mills, and forests, plus materials left over from the previous year, will amount to somewhere from twelve to eighteen billion dollars, practically as much as the total amount of our Liberty bonds now outstanding, or, as another illustration, property values in this country which have apparently melted away in the past 12 months represent a sum far greater than the total gold supply of the whole world at this time. The significance of these figures and of these terrific losses may be better imagined when we recall that the total wealth of this country in 1900 was estimated at only \$88,000,000,000."

The quotations from this letter will reveal its general tenor and the fact that the situation was called to the Board's attention in a clear, forcible manner. This was, in fact, the fourth letter written by Mr. Williams to the Board on various phases of this subject, the first one being dated in August 1920. This letter of December 28th was a compendium of the others; it was the first one that the Board attempted to answer. It was in this letter that Mr. Williams called attention to the New York banking situation, and the meager volume of credit being extended to agriculture, previously quoted.

On Jan. 13, 1921, Gov. Harding, on behalf of the Board, replied as follows:

"This reply to your letter represents the views of the Sec-

retary of the Treasury, who is chairman of the Board, as well as those of Messrs. Platt, Hamlin, Miller, Wills, and myself. For the sake of brevity, I shall make use in this letter of the pronouns 'we,' 'our,' and 'us,' it being understood that these pronouns refer to the members of the board above named."

Please observe that this is the official declaration of the majority members of the Board upon the various matters to which Mr. Williams called attention. It was a carefully prepared, carefully worded, deliberate statement of policy and purpose on the part of the majority members.

The majority members of the Board further state in this official document:

"You say that the owners of those bonds do not ask the Government to buy their bonds to save the holders from loss and it hardly seems right under the present conditions to tax those borrowers for interest on money borrowed from the reserve banks 1- $\frac{1}{2}$ to 2- $\frac{1}{2}$ per cent more than the bonds yield, especially when this interest so collected goes to the Government indirectly. Entirely apart from the question whether these bonds were sold to a patriotic public at rates of interest lower than they should have borne, the Federal reserve banks are certainly under no moral or legal obligation to protect the bondholders from loss of interest, and the discount policy of the Federal Reserve System can not be adjusted to suit the convenience or relieve the necessities of individual holders.

"You evidently appear to accept at their face value the complaints which you receive from different parts of the country alleging restrictions of credit. Our experience has been that these complaints, as a rule, do not bear analysis."

Evidently these great men did not believe the representations that had been made to them by the presidents of the 22 national organizations of the various branches of farming and dairying, as hereinafter set forth. They rather chided Mr. Williams for not being as wise and sophisticated as they themselves were.

Please read carefully this further statement, for it alone, without any further evidence, is sufficient to convict these six men of the "Crime of '20":

"You refer to the fact that the combined reserves of all Federal reserve banks are now actually higher than they were a year ago, and urge this as an argument for a more liberal policy. The improvement in the reserve position of the Federal Reserve banks has had a reassuring and stabilizing effect and we hope that the reserves will continue to improve for some time to come. We attach no significance to your statement that the Federal Reserve banks have an unused lending

power at this time (without reducing the reserve requirements) of about \$700,000,000, and by waiving or reducing their requirements as to reserve by only 10 per cent their lending power could be increased to about \$2,500,000,000. You have made this statement publicly on two or three occasions during the past six months, and while we do not question your motives in giving publicity to the statement, we regret your action in doing so, and feel that the effect has been harmful, for it undoubtedly has given rise to false expectations and probably has caused holders of commodities, which could have been liquidated several months ago at prices much higher than those now prevailing, to hold on in the hope that the Board would adopt a policy of inflation in an attempt to sustain or advance prices.

"You refer to the great shrinkage in values which has taken place during the past year, estimating the amount at somewhere from twelve to eighteen billion dollars, but you do not refer to a corresponding expansion of values which took place earlier. We hold that the shrinkage which has taken place is somewhat analogous to that which occurs when a balloon is punctured and the gas escapes."

Please observe that it was the value of farm products in the hands of the farmer that they referred to; that they did not controvert the fact that they had brought about a shrinkage in values of from 12 to 18 billion dollars; that they did not controvert the further fact that the reserve system could extend the needed credit without touching the legal reserve; that they objected to the publication of any statement showing the actual strength of the financial situation because it tended to inspire hope in the breast of the farmer to withhold his products from the market, which was then demoralized. Gov. Harding in his last effusion on this subject, published in the daily press Oct. 29, 1921, says:

"The 'bull' movement stopped in 1920. The banks did not stop it. What the Federal Reserve Board tried to do was to prevent a banking collapse as a concomitant of the price collapse. The people themselves ended the period of rising prices."

He complains that the banks are responsible for the erroneous impression that the Board has contracted credit; that they have falsely given that as the excuse for refusing loans that they did not want to make, and that the Board has suffered this calumny in silence.

Over a Billion Surplus in Lending Power.

Mr. Williams replied to their "balloon puncturing"

program in a letter to Gov. Harding, dated Jan. 17, 1921, as follows:

"Your comparison of the financial process through which we have been going to the deflation of a balloon is peculiarly happy and appropriate, and carries directly to the point I am trying to impress on you and my other colleagues on our board. Instead of driving a hole into the bag and crashing to earth in wreck and ruin, we should handle the valve rope and ballast with anxious and ever-alert care to effect a safe landing on good and solid ground. Our solemn duty, as of course you realize, is to conduct the operation regardless of political, sectional, or individual feelings, of pride of opinion prejudices, preferences, and even of precedent and historic accepted rules and forms. * * *

"Investigations and reliable reports indicate clearly to my mind that it will be necessary for the Federal Reserve system to relax in the matter of credit extension and provide their member banks more liberally with funds, and on a fairer basis than is sometimes charged on the 'progressive' plan, in order to enable member banks in the agricultural districts of the West and South, the Southwest and Northwest to supply the farmers with the wherewithal to make their crops for the ensuing season.

"Despite the impoverishment and money scarcity now existing in so many parts of the country, the Federal Reserve banks, as a whole, are now, as the official records show, abundantly supplied with funds. In fact, their unused lending power, which I referred to in August last as \$750,000,000, has now increased to about \$1,200,000,000, and a reduction or waiver in reserve requirements of not over 10 per cent on deposits and notes would now bring their total unused lending power up, at this time, to more than \$3,000,000,000. * * *

"You speak of my reference to the very great shrinkage in values which has occurred during the past year, and your comment is that I have omitted to refer 'to a corresponding expansion of values which took place earlier.'

"Let me try to impress on you again that I am not seeking a debate on abstract questions and would regard recriminations, attempts to irritate or injure individuals, or exchanges of charges and counter charges as beneath the dignity of a vast condition with which we must deal. We look with proper contempt on officers and rulers who have lost empires by ignoble squabbles at the climax of battles. I am trying by entirely frank methods to bring about courageous, prompt, effective action after honest, conscientious facing of facts and study of all possible plans and propositions. In my view, as a general proposition, the more the intelligent people and leading forces of the country are told of the realities of their affairs and situations, the more practical wisdom and help we will get for our work. **A policy of secrecy in public affairs is hardly ever justified except by actual state of war.**"

Houston Stands Fast for Deflation.

I submit the further undisputed testimony of Mr. J. S. Wannamaker, President of the American Cotton Association, and former president of the South Carolina Bankers Association, given before the Joint Commission of Agricultural Inquiry, published in part 21 of its Hearings, pages 124 and 125:

"I read to the Secretary of the Treasury, in the presence of 60 representatives, representing practically every State in the Nation, the letters he had written me officially, which were in line with those statements, in which letters he stated that the policy of the Government was opposed to the exportation of American products, as it would result in increasing the indebtedness of Europe to the Government of America. I also read a letter from him in which he quoted a prominent Government official as saying that prices of agricultural products and commodities must go lower. I pointed out that the removal of the War Finance Corporation, after the producer had planted his crop with the understanding that the War Finance Corporation would function for one year after the ratification of peace, and with the further understanding that there was urgent demand for American agricultural products in Europe for the purpose of enabling them to rehabilitate and start to pay their enormous war debts, had closed the market to 66 per cent of the American crop and would bring wreck and ruin to American agriculture and commerce. I pointed out to Secretary Houston at that time, and again reiterated my previous statement, that this policy of drastic artificial deflation would have the same effect that it had had in all of the records of history, that, it would result in suicide, insanity, and bankruptcy, and in bringing suffering to millions of innocent people. I pointed out that we had the opportunity of world trade; that as a result of the five years of the World War sociological and economic changes which probably would not have developed in 500 years of natural evolution had taken place; that these changes would compel the acceptance of and adjustment to an elevated standard of values as a permanent inheritance. * * *

"He expressed himself, however, as determined to adhere to the policy of deflation.

"All efforts to induce him to reinstate the War Finance Corporation proved unavailing. He stated that the Government would take no action that would influence, directly or indirectly, the maintenance of the then existing prices, nor would he permit the functioning of the War Finance Corporation. All efforts to gain relief, cooperation, or assistance from the Secretary of the Treasury failed, he taking the position that agricultural products should be marketed as soon as harvested; that orderly marketing meant immediate sales; that

holding tended to interfere with orderly business and commerce; that the producers' business was to produce.

"Regardless of every assurance that assistance was not desired for the purpose of holding for speculation, but only for the purpose of orderly marketing and harvesting, he insisted that the producers should not expect assistance for this purpose, even through existing financial machinery; that if they would harvest and sell their products they would be able to finance same without assistance.

"The Secretary of the Treasury stated emphatically that prices must go lower; that we must return to prewar conditions, although earlier in the meeting he had strenuously denied that he had issued such statements. In addition to this, the Secretary of the Treasury severely criticized the efforts to help the agricultural producers, regardless of the fact that it had been explained that there was no market for agricultural products except in a limited way at far below the cost of production; that confidence had been destroyed as result of the policy enforced in Washington. * * * *

"The Secretary of the Treasury insisted that the only course open was to dispose of the products, accept losses and redouble our efforts in production with a view of recovering the losses so incurred; that lower prices were a necessity and certainty; that inflation could not remain. * * * *

"An effort to hold a conference with the President was declined on account of the sickness of the President. An effort to hold a conference with his Cabinet proved unavailing. Conferences were held with the Federal Reserve Board, a plea being made by a personal representative of each line of agriculture and live stock raising for a lowering of the rediscount rate and an immediate reversal of the policy of contraction of credits and currency. The plea put forth by the various representatives was indorsed by Senators and Congressmen. The condition of the agricultural producer, being without markets except in a limited way at less than one-third the cost of production, was pointed out. The gold reserve justifying additional circulation and credits was referred to. The earnings of the Federal Reserve were cited. All efforts to secure relief again failed."

Producers Plead for Protection.

It appears from Mr. Wannamaker's testimony that this conference with the Secretary of the Treasury and the Federal Reserve Board was held in the early part of October, 1920, and that it was attended by the representatives of 22 different national farmers organizations from all parts of the United States, representing all branches of farming, dairying and live stock producing, and that he was the spokesman for all of these

organizations. It further appears from his testimony that on Sept. 15, 1920, there had been a conference between the Federal Reserve Board and 50 representatives of the American Cotton Association, ex-Governor R. I. Manning of South Carolina being their spokesman.

This first meeting, it will be noted, was a few days before the meeting of Sept. 21st of the Advisory Council, and the October meeting was a few days afterward. Undoubtedly it was the American Cotton Association that the Advisory Council rather contemptuously referred to as being the "certain sections and interests" that objected to their program.

Please bear in mind that the deflation program was inaugurated for the pretended purpose of "mobilizing credits" to meet the needs of agriculture; that of the discounts then held by the Federal Reserve Banks only 8 per cent represented agricultural paper, including livestock and dairying; that two banks in New York City at that very moment had loans and discount with the Federal Reserve Banks exceeding the entire amount of the discounts of all the farmers, dairymen and livestock producers of the Nation; that these men who petitioned the Secretary of the Treasury and the Federal Reserve Board for relief were the representatives of the national organizations of the various branches of agriculture, and that they only asked for sufficient credit to enable them to market their products in an orderly manner. If there still be a lingering doubt in any man's mind as to the purpose of the Board, and as to their knowledge of the consequences of their program, Mr. Wannamaker's positive, uncontradicted testimony, the official letter of Mr. Williams to the Board, and their official reply, should forever remove it.

Comment can not make this language plainer than it is. Read it and study it as conscientiously as you do your Bible, for your material salvation depends upon a true diagnosis of the situation, and a correct understanding and application of the remedy, as surely as your spiritual salvation depends upon your faith and your works.

A glimpse behind the scene is revealed to us in the correspondence between Mr. Williams and Gov. Harding.

Like a ground hog, the Advisory Council came out in the light of day on Sept. 21, 1920, and they saw their shadow in the clear sunlight, and left the imprint of it upon their records, and then they hid themselves in their accustomed darkness—falsehood and secrecy—and there they remain hidden.

Convicted by Their Own Admissions.

If in reading the preceding pages you have doubted the correctness of any statement I have made, then please go back and read again and compare what I have said with what they admit. If you think the words "liars, hypocrites and traitors" are ugly and coarse, then I beg of you to ask yourself what other words could adequately express the truth, and also to remember how coarse and ugly and terribly cruel are the facts.

If you have read any statement or speech made by Gov. Harding, or any testimony given by him, or if it has been your privilege to sit at his feet and listen to his oracles of wisdom, then I ask you to recall a single sentence at any time or place where he has admitted the truth, or any part of it, as it is recorded and revealed in these official records. I state without fear of contradiction that they condemn as untrue every statement he has made on this subject during the current year 1921, and he has made a great many. If any one doubts that the Federal Reserve Board, with its cooperating and supporting banks, and their press bureaus, are intentionally and designedly conducting a campaign of lying and deception, let him read again the answer to Sub-Division 4, Topic 2.

CHAPTER SIXTEEN

Suggestions for Workable Amendment of the Federal Reserve Law

This concludes my presentation of the evidence against the Board and Advisory Council for the "Crime of '20", although there is much more of it. If you, my dear reader, have a lingering doubt regarding the causes of the calamity that has befallen you and your neighbor and your country, then read carefully again the answers of the Federal Advisory Council to "Topics Nos. 1 and 2." These answers were written when they thought there was no reason to conceal the truth, when they were satisfied with their work, and when they believed that the country would stand for it, and that criticisms would be confined to certain sections or interests which they could easily belittle or counteract. Read again the letters of Messrs. Williams and Harding, and the testimony of Mr. Wannamaker.

The Remedy.

The Federal Reserve System is in many respects an excellent banking measure. The abuse of its power has created a situation that it can not now be made to correct, even though all of the amendments suggested be adopted. More heroic treatment is now needed. If our national and state banking systems are to continue as they are now organized and developed, the Reserve banking system should be continued. I have rather fully argued the changes that should be made in the law in describing it and abuses of it. I shall, therefore, state these amendments without much additional argument or explanation.

(1) The directorate should be representative of the different interests of the country, and non-political in character. It should under no circumstances be a paid directorate with offices in Washington, for this means job hunters instead of business men. The salary is a temptation to a salaried man, who wants a better salary, but not to business men who have the responsi-

bility of their own affairs. The most of them are willing to serve without adequate compensation provided they can render a real service, and provided all of their time is not taken, but few of them will move to Washington to take a government sinecure, no matter how large the salary. The directorate should be similar to that of the ordinary bank of the country. It should be composed of the ordinary business men of the country.

I suggest that there should be a director from each state of the union appointed by the Governor of the State, that the directors should hold monthly meetings at such points as they may designate, and that these meetings should be public meetings. The Vice President and all of the members of the cabinet should be ex-officio directors, and should constitute the executive committee to act in the absence of the board. This means that all political parties and all sections of the country will be represented. There should be an absolute inhibition against more than fifteen bankers (if that many) in the board.

The Advisory Council should be abolished. The directors of the Reserve banks might remain as they now are, except that the Governors of the States composing the bank districts should appoint two-thirds of them, and none of these appointees should be bankers. Let the banks of each district select one-third.

(2) The Board's power should be clearly defined and should be limited strictly to supervision; the banks should have supreme jurisdiction in their districts concerning discount rates, and all other matters. This means that the board would not have the power to establish its theory of a discount rate above the market rate for that would be entirely a matter for the local reserve bank. The graduated discount rate should be expressly prohibited by law.

(3) A conspiracy on the part of two or more people to manipulate currency and credit in such way as to manipulate values or to bring about a crisis should be defined as high treason, and be punishable by death.

(4) The Board and the banks should be required to discontinue the newspaper and magazine business. This is comparatively a recent departure in banking, and it

is wholly unnecessary and indefensible. We have enough press misinformation without theirs. At this time the financial columns of the newspapers, and I regret to say their editorial columns also, are full of this banker inspired bunk.

According to the testimony of ex-Comptroller Williams, the Board and some of the Federal Reserve banks maintain press staffs. A sufficient objection to this should be the fact that the Federal Reserve law does not, under any possible construction, permit it. As for that matter, it does not permit them to maintain their wire service, or to build bank buildings; their bank building account now amounts to \$29,111,000; or to pay excessive salaries; the salary account of the New York Federal Reserve Bank now amounts to \$4,639,273 annually. These servants (?) of ours are very scrupulous about the law when they don't want to do anything, but they can find no law that will prevent them doing the things they desire to do; "they strain at a gnat and swallow a camel."

The Associated Press of this date, Oct. 5, 1921, contains two dispatches, one from Chicago reporting the proceedings of the annual convention of the National Grain Dealers Association, and the other from Los Angeles reporting the proceedings of the annual convention of the American Bankers Association. Mr. R. I. Mansfield, chairman of the Special Executive Committee of the National Grain Dealers Association, a committee organized to fight the American Farm Federation Bureau, reported that his committee had spent \$40,386.59, of which \$37,765 was contributed by the grain exchanges, in their "educational" campaign; that they had sent letters to 200,000 influential farmers, had distributed 1,400,000 pieces of literature, and had had articles printed in 700 magazines, farm journals and newspapers; and had organized a speakers' bureau; and that it was necessary to the existence of the present marketing system that the work be continued and pushed vigorously.

Mr. Francis H. Sisson, Vice President of the Guaranty Trust Co. of New York, and chairman of the Public

Relations Committee of the American Bankers Association, reported in part as follows:

"Guiding a democracy such as the United States along safe, conservative and proper lines is largely a matter of intelligent, scientific publicity. Many of our public institutions have spent large sums in their attempts adequately to distribute material of the kind mentioned, and it is far from our thought that this representative American Bankers' Association can decide upon a policy of smaller courage, less vision or less effort and fail to render a real educational and constructive service which has such practical value to the Nation. * * * **It is far from altruistic to urge this. Rather it is the part of selfishness—intelligent selfishness.**" (Note: Quite frank and quite true. We do not desire to have our "Democracy guided by the bankers and their hired economists, newspaper correspondents and newspaper magazines).

(5) Banking should be declared by law to be a public utility, as it is in fact, and it should be regulated as such. All private banking and bond houses that deal in foreign securities or the securities of public utilities should be included in the law and made amendable to the same regulations and control as other banks. A national usury law, with teeth in it, should be adopted. The salaries of bank officials should be subject to government approval, and all earnings of banks, private and national, should be limited to a reasonable amount, and the excess should be paid into the national treasury as a license or income tax. The banking system should be dethroned as the master of industry and made its servant.

(6) The Federal Reserve Banks should be denied the power to issue currency or to hoard money. They should act only as reserve and discount banks. The reserve requirements may continue as they now are. There is no need for an emergency currency if we have plenty of it and adopt adequate measures to prevent its manipulation. This subject will be further discussed in the next chapter.

(7) At least 50 million dollars of the swollen earnings of the Federal Reserve Banks should be used to organize banks or trust companies to handle agricultural products. There should be a farmers bank wherever there is a farm loan bank, but they should have separate directors and be under separate management.

A capital of \$10,000,000 for each bank, with one-half paid in, would be sufficient to start with.

These institutions should be in the nature of discount banks, to handle the agricultural paper of all banks and trust companies, and co-operative societies of every character. They should have the authority to rediscount, or issue their own acceptances or debentures against securities in their possession, up to ten times their capital. Their paper should be eligible for discount at all the Federal Reserve Banks. They should be of similar character, and their methods of business similar, to the discount corporations organized under the Edge act. The Farmers District Corporation should discount for banks, trust companies and co-operative societies and others lending to the farmer to produce, hold, or market his products, the export corporation under the Edge act and the banks and trust companies and corporations handling the product after it leaves the farmers hands, and while it is in the process of being marketed in foreign countries.

Both should have the same credit power; both should enjoy the same discount facilities, and the same rates of interest, which should and would always be the lowest.

This means that a \$10,000,000 farmers bank in the Dallas district could extend \$100,000,000 of credit. The highest volume of agricultural notes held by the Dallas bank at any time last year, according to the 1920 report of the Board, was \$31,711,000 in September. It means that five of these banks having a capital of \$50,000,000 could extend \$500,000,000 credit, which is more than twice the high water mark of agricultural paper held by all of the Federal Reserve Banks at any time last year.

These farmers' banks would be similar to the cattle loan companies that now handle cattle paper, except that they would not deal direct with the borrower, as the cattle loan companies do; they would deal with the loan companies and be protected by their endorsement, as well as the security behind the paper. The cattle loan companies have, under normal conditions, a ready market for their paper which is sold with their endorse-

ment. These companies handle and endorse paper up to more than ten times their capital, which varies from \$100,000 to \$500,000. It will be readily understood that this paper will have a broad market at low rates if it has the further guaranty of a \$10,000,000 semi-government corporation, and is available for discount at the Federal Reserve Banks.

The bulk of the paper of the farmers discount corporation will be six months paper, because the farmers' loans usually run six months; a smaller volume will run twelve months, and a still smaller volume for a longer period. In order to insure low interest rates and broad market for the long term paper, it perhaps should be made tax free.

The most important and constructive act of legislation of the Wilson administration was the Federal Farm Loan Act. If a farmers' discount bank had been in operation a year ago, perhaps the story might have been different. It is an excellent use to make of the swollen profits of the Federal Reserve Banks, and far better than to invest them in luxurious cut stone buildings with \$25,000 bronze doors. The city bankers should not oppose this sort of a farmers' corporation, for it tends to make their reserve banks "bankers banks" with liquid, short time assets. These discount corporations would be of great advantage to the country bankers as they would enable them to extend long time loans to the farmer at low rates, for they would have a ready market for such paper.

CHAPTER SEVENTEEN

The Duty of Congress to Coin Money and Regulate Its Value

Art. 1, Sec. 8, Sub-Div. 5, of the Federal Constitution provides: "The Congress shall have power to coin money, regulate the value thereof and of foreign coins." The power to issue money and to regulate its value is now being exercised by the Federal Reserve Board. The present crisis is due to this unlawful assumption of power and its abuse by the Board. The remedy is for congress to exercise the authority and discharge the duty vested in it by the national constitution, Aristotle enumerates among the prominent subjects in the "economy of a ruler" that he knew when to raise and lower the value of money.

Congress should provide immediately for the issuance of an adequate volume of money for the needs of commerce and industry, and it should establish a fixed per capita circulation and means for increasing the volume of circulation with the increase of population. This would establish a fixed basis of value, both of property and money, and a fixed basis for credit, and would prevent the possibility of panics by expansion, contraction, and manipulation of currency and credit.

The power of the Federal Reserve Banks to issue any character of currency, emergency or otherwise, or to hoard money in any way or for any purpose, should be taken from them. They and the Board should be prohibited, under the most severe penalties, from regulating and controlling, or attempting to regulate and control, the value of money or property by the expansion or contraction of either currency or credit, or by manipulation of the discount rate, or otherwise.

The Mandate of the Constitution.

The language of the constitution is simple, direct, and unequivocal. It is too plain for argument. It does not mean that congress may create a bureau or board and vest it with the discretion to issue money and regu-

late the value thereof; it means that congress alone shall perform this function. Congress may, of course, employ agencies for performing the ministerial act, but it can not invest these agencies with the discretion to determine the amount or the volume of money, for volume determines value.

Congress has established the number of grains of gold in a dollar, but that does not establish the buying power of the gold dollar, its value measured in property or service; it only establishes the kind of money, and not its value, unless it results in an increase in the volume of money in circulation. The \$800,000,000 of outstanding national bank notes in circulation, which have no relation to gold and are not covered to any extent by a gold reserve, will buy as much goods and service as an equal volume of gold dollars made of pure gold. If our volume of money should be doubled, credit power would be doubled, values would be doubled, and the buying power of the dollar would be depreciated one-half. The value of money is determined by supply (volume) and demand. A board that is authorized to control and regulate the supply and fix the rate of interest for its use is vested with full authority to fix and regulate its value of buying power, which necessarily involves the power to fix and regulate the value of all kinds of property and service.

This is an elementary principle of economics of universal acceptance. Credit, it is true, has much to do with values, but money is the basis of credit, as shown in the preceding chapters.

"It is to be remarked that this ratio would be precisely that in which the quantity of money had been increased. If the whole money in circulation was doubled, prices would be doubled. If it was only increased one-fourth, prices would rise one-fourth. There would be one-fourth more money, all of which would be used to purchase goods of some description. When there had been time for the increased supply of money to reach all markets, or (according to the conventional metaphor) to permeate all the channels of circulation, all prices would have risen one-fourth. But the general rise of price is independent of this diffusing and equalizing process. Even if some prices were raised more, and others less, the average rise would be one-fourth. This is a necessary consequence of the fact that a fourth more money would have been given

for only the same quantity of goods. **General** prices, therefore, would in any case be a fourth higher.

"So that the value of money, other things being the same, varies inversely as its quantity; every increase in quantity lowering the value, and every diminution raising it in a ratio exactly equivalent.

"That an increase in the quantity of money raises prices, and a diminution lowers them, is the most elementary proposition in the theory of currency, and without it we should have no key to the others." (Mill's "Principles of Political Economy" pages 29, 30 and 33).

The Board has usurped the power which the people gave to Congress alone. It has retired from circulation and use the money issued by congress in pursuance of the constitution, for which, in part, it has substituted its own banker controlled, Board manipulated, temporary, constantly fluctuating currency. It regulates the value of money by regulating its volume, and by the manipulation of the discount rate. In regulating the volume and character of domestic money, it regulates, to some extent, the value of foreign money (coins) as measured in our dollars, called the exchange ratio.

Congress was granted three clear, distinct duties and powers regarding money: 1st, to issue it; 2nd, to regulate its value; 3rd, to regulate its exchange, or comparative, value with foreign coins. Either the Board has usurped, or Congress has surrendered to it, all of these duties and powers. The Board now performs each and all of these functions and congress none of them.

I commend the constitution to the prayerful consideration of congress and the Board—who prate so much about obedience to the law. We need, all of us, to get back to the foundation principles of our government, from which we are drifting. Most of the ills that now beset us are due to the violation of these fundamental principles. The constitution is the sheet anchor of our liberties, and we violate it at our peril.

How shall Congress exercise its power? How much money shall it issue, what kind of money shall it be, how shall it be put in circulation, and how shall congress regulate the value of foreign money? These are the most important questions before the American people, and they are far too important to leave to the discretion

of any seven men to be determined in secret conference. I shall discuss the question of the volume of money from two view points, viz: 1st. The volume of money that should have been issued during the war and as a result of it; 2nd: The volume that should now be issued in case we accept the inequitable and unjust burden that has been placed upon productive industry.

Currency Should Help Pay for the War.

1st: The volume of money that should have been issued in payment of war expenses. Money could have been provided for all of the cost of the war by issuing currency instead of bonds. Bonds were issued in place of money in order to avoid what we call "inflation"—cheap money and high values. We should have provided for at least a part of the war expense with currency instead of bonds, as did all of the other belligerents except Japan. We can still partially retrieve this mistake by retiring bonds with money.

Visualize, if you can, the government as being yourself with the power and resources of the government. You are called on to pay an abnormal emergency expense of 25 billion of dollars; you have the power to issue your fiat money to pay all of this expense, or to borrow all of it. If you issue fiat money you cheapen correspondingly your monies and promises to pay money, but to the same extent you enhance the value of all of your other property. If you borrow the money, you mortgage your property, or rather its revenue, for the amount of the loan. What would you have done about it?

The probabilities are you would have issued fiat money for the whole amount of the expense, for you would have thought your property of far more consequence than your money and notes. This in the case of the government, however, would be unjust to the citizen who has nothing but money and notes, for it would have put the entire amount of the expense upon him by cheapening his property. The fair and just distribution would appear to be to pay about one-fourth the expense in fiat money and three-fourths by bonds, in order that the burden may be, as nearly as practicable,

equally distributed between the holders of both classes of property.

This division of the war burden can still be made by the simple method of issuing six billions of currency and using it to pay an equal amount of bonds. Obviously, the effect of this would be to cancel one-fourth of our bonds and reduce our annual interest and sinking fund charges one-fourth, or about 400 million, annually. It will increase the volume of our money by six billion, or about \$59 per capita, and will increase the value of property accordingly; it would mean a per capita circulation of about \$80, leaving out the Federal Reserve Notes. It would of course throw the money trust and their press representatives into a case of violent hysterics, although it would not be half so dishonest as the job they have put over on the American people.

The per capita circulation

| | June 30, 1914. | June 30, 1920. | Increase |
|--------------------|----------------|----------------|----------|
| Great Britain | \$19.46 | \$69.76 | \$50.30 |
| France | 61.17 | 200.01 | 138.84 |
| Italy | 15.25 | 103.89 | 88.64 |
| Germany | 20.00 | 177.65 | 157.65 |
| America | 34.53 | Est. 20.00 | *14.53 |

*Decrease.

Germany's circulation on July 7, 1921, was \$368.07 per capita. Our per capita circulation on June 30, 1914 was \$34.53; it is now \$18 or \$20.

The increase of the money in circulation in the countries mentioned represents the extent to which these countries paid the expenses of the war by the issuance of currency. All of the other warring countries except Japan, whose participation was limited, put a part of the burden of the war upon money and notes, and all of them except Great Britain put proportionately more of the war expense on money than is here suggested. If we now redeem this mistake it will largely correct the exchange situation, and it may enable the debtor countries to liquidate their obligations.

Have the owners of money, notes and bonds such

a vested right in the existing situation as that it will now be unjust to them to correct it? In what respect would they be injured more now than they would have been at that time? Have they in fact not had the advantage of the past four years, to which they were not entitled, during which time the whole burden has been upon productive industry?

The money owner has no vested rights in existing values. He holds his money subject to the power of congress to cheapen it as the interest of the nation may require, and subject also to the power of congress to fix and regulate the charges for its use. Money is the measure of value, which the government has the right and duty under the constitution to alter or change in the public interest. It is also the medium for effecting exchanges of property, and it thereby performs a public service which the government has the right to regulate and control in the interest of the public. Moreover, they have not scrupled about doubling its value; it is but giving them a taste of their own medicine; it is but following a precedent that they have themselves set.

Wanted—an Honest Dollar.

Second, while I believe that it is but an act of simple justice to now pay at least one-fourth of the bonds (\$6,000,000,000) with an equal amount of currency, I admit that the question is a debatable one. There can be no argument, however, against the proposition of paying the bonds with money of the same value as it had when the bonds were issued. **The bond holder is not entitled to any more money, or money having any greater value or buying power, than that stipulated in the bond.**

The effort on the part of the government and its officers and institutions to double the value of money and bonds by an artificial contraction of money and credit means the transfer of values from those who labor to those whose money works for them. If it stands, then the bonds of our country and of other countries owned by our people, and all private debts, should be scaled down to the extent that they scale down prop-

erty values, or, stated conversely, to the extent that they increase the buying power of money.

The money trust, through its influence with the Wilson administration, first succeeded in having bonds issued for the whole amount of the war expense, thereby placing the whole burden on productive industry, and then it succeeded in having these bonds forced out of the hands of the 20,000,000 buyers into the strong boxes of the rich; and then it succeeded in having the value of these bonds doubled, thereby doubling the load that productive industry must bear.

CHAPTER EIGHTEEN

Currency Needs of the Country and How They May Be Met

We do not yet fully comprehend the meaning of the staggering national debt, amounting now to \$24,000,000,000, that has been placed upon us as a result of the late war. The annual interest on it is approximately one billion dollars, and a 2 per cent sinking fund to retire it is 500 million more. Only twice or three times prior to the war did the whole expense of the national government, including interest, pensions, war, navy, etc., exceed one billion dollars, and we thought it rank extravagance. Our annual interest charge now is more than the amount of our national debt in 1914. Due to our indirect system of taxation, tariff and excise, we have never before felt the heavy burden of federal taxation. Estimating the annual wheat crop at one billion bushels and the price \$1 per bushel, and the annual cotton crop at twelve million bales and the price 10 cents per pound, basis middling, it will take all of the wheat and cotton crops of America, our two principal crops, to pay the interest and sinking fund on the national debt, to say nothing of the other increased government expenses.

We should not be deluded by the idea that we will collect any substantial part of our European debts in the coin of the realm as it is now established, as will hereafter be shown. The burden of taxation has rested lightly upon us until this year, because we have been prosperous, but the administration is now finding the problem of providing the necessary government expenses to be a serious one. The annual expense of the national government will be more than 4 billion dollars, or about \$40 per capita, or twice the amount of money we have in circulation. It is reasonably certain that there will be a deficit both this year and next. We can not pay taxes unless we make money, and we can not make money with dear money, cheap labor, and cheap products. No people have ever before done it; it is impossi-

ble. Even our money mad financiers ought to be able to see that the national debt can not be paid with \$1 wheat, 50 cent corn, 5 cent cattle, unemployed labor, and dear money. The wise thing to do, as well as the honest, is to increase our money in circulation and thereby cheapen both it and our bonds.

Our internal debts prior to the war are estimated at 95 billion dollars. Mr. S. P. Panton estimates that they now amount to 250 billion. Our annual interest charge at 6 per cent on this estimated indebtedness amounted to about 6 billion before the war, and it now amounts to about 15 billion. I doubt if the net earnings of productive industry for the year 1921, excepting the banks and railroads, will equal the amount of our annual interest charge and national taxes, aggregating 19 billion dollars. It is conservative to say that our interest and tax charges have doubled since 1914. This burden will bring poverty and disaster upon us unless our values, our supply of money and credit, and our earnings are also doubled.

We Need \$70 Per Capita.

At the time of the issuance of our war bonds (1917-18 and 19), the average values of property were approximately double values in 1913 and 1914. In order therefore to maintain those values the volume of money in 1913 and 1914 should be doubled, which means that our per capita circulation should be increased to and maintained at \$70 per capita, which is about \$10 per capita less than it would be if currency had been issued for one-fourth of the war expenses. We in fact had a stock of money of over seven billion dollars, or \$70 per capita, at the time these bonds were issued, which we were entitled to have in circulation. We should not permit our per capita circulation to fall below \$70 until the bonds are paid.

Prior to the war France maintained by far the highest per capita circulation of any of the countries of the world, and she always maintained it at approximately the same standard, viz.: \$60 per capita. Although the people of France are reputed to be a volatile excitable people, they never had a panic or a serious depression,

their values were stable, their wealth well distributed, and they were loyal and contented. She paid a war debt to Germany greater in proportion to her wealth than ours, without injury to her commerce and without oppressing her people. If her per capita circulation had been \$20, which was our average per capita circulation following 1873, she would have suffered far more than we did, because she lacked the natural resources we possessed. The \$60 per capita gave prosperity and happiness to the people of France while paying her war debt; the \$20 per capita brought poverty and illiteracy and ruin to us while paying ours.

The difference between expansion and contraction, or a high and low per capita circulation, may be correctly gauged by the difference in their effects. The French people with a per capita circulation of \$60 prior to the war, notwithstanding the enormous indemnity paid to Germany, were far more prosperous than the British, with a per capita of \$19, although the creditor nation and money center of the world. The French people with \$200 per capita are now more prosperous, notwithstanding their enormous war losses of life and property, than the British with \$69.76 per capita. There is now and has always been a general diffusion of wealth among the French; in England there is great wealth among the few that are rich, and great poverty among the masses that are poor.

These are the unavoidable results of a liberal and a restricted volume of money;—prosperity for the farmer and laborer is the logical result of a high per capita circulation and cheap money; prosperity for the money lender is the necessary and logical result of a low per capita circulation and dear money. The laborer and the farmer must eat and wear clothes, and his buying power and standard of living, and the general prosperity of the community, increase with the increase of his wages and the value of his products; but money does not eat nor wear clothes, and the owners of it are few in number, and their consuming power is limited.

Congress should at once repeal the provisions of the Federal Reserve law giving the Reserve banks authority to issue Federal Reserve notes. The law should also

be amended as to the cash reserve for the deposits of member banks, which should be reduced from 35 per cent to a **maximum not exceeding 25 per cent**. The next step is to get all of the money held by the Federal Reserve Banks in excess of the 25 per cent reserve for bank deposits in circulation.

The gold and moneys held by the Reserve Banks do not belong to them, nor to the member banks, nor to the depositors of the member banks. These monies theoretically are held in trust for the United States Government to secure its notes, called the Federal Reserve notes, and these monies really belong to the government.

How the Supply of Money May be Increased.

Congress should direct the Secretary of the Treasury to take charge of this hoarded money, and to use it to redeem U. S. bonds at par with accrued interest. This will restore the value of bonds and will get the hoarded money in circulation. If the money held by each Federal Reserve bank is used to redeem bonds in the bank's district, it will mean a fairly equitable distribution of the money throughout the country. These bonds should not be bought on the open market, as was done under the administration of Prof. Houston. The government should not seek to discount its obligations or to depreciate their value.

This will put in circulation approximately \$2,500,000,000 of gold money and will reduce the national debt by the same amount, which will, on the basis of 4 per cent interest and 2 per cent sinking fund, mean an annual interest saving of \$150,000,000.

The 1920 report of the Comptroller of the Currency, (page 19) shows that on July 1, 1914, our per capita circulation amounted to \$34.53, and that we then had \$1,644,775,000 of gold. We were then, as well as now, on a gold basis, which means that our money is redeemable in gold, and that as our stock of gold increases our volume of money should increase correspondingly. We are now entitled to considerably more than twice the per capita circulation we had on July 1, 1914, because we have considerably more than twice the stock of gold we then had. As a matter of fact we now have

more than twice the volume of money we had in 1914, but it is not in circulation, whereas it was all then in circulation; we are entitled to have it in circulation, and we are entitled to have approximately \$70 per capita circulation, even under our present system.

No creditor has the right to complain of such increase of currency, or cheapening of currency, as they call it, because it is a natural and logical increase and not an artificial one; it is but the natural distribution of the 20 billion dollars of wealth that has come to us during the past few years as a result of selling to other countries more than we buy, and as a result also of the unusual efforts we put forth to measure up to our responsibilities and to the demands upon us. The farmer and the laborer are entitled to their share of this wealth, as well as the money lender.

On the basis of Prof. Kemmerer's estimate of \$1,850,000,000 of money now in circulation, exclusive of Federal Reserve notes, the release of the gold hoarded in the Federal Reserve Banks would increase the money in circulation to \$4,350,000,000 or about \$40 per capita, which, as shown above, is not enough. Congress should cause to be issued \$3,000,000,000 additional, to be put in circulation in the same manner, viz: by retiring an equal amount of bonds distributed in an equitable manner throughout the country.

The most important effect of such action will be to put all of the gold now being hoarded by the Federal Reserve Banks in circulation, to retire all of the outstanding Federal Reserve notes, and to put \$3,000,000,000 of government notes or greenbacks in circulation. This new money should be issued as the outstanding Federal Reserve Notes and National Bank notes are redeemed, but it should be put in circulation through the payment of bonds; it is not necessary to use it to take up existing currencies. The Federal Reserve notes are retired as the commercial obligations, which in part secure them, are paid; the national bank notes may be redeemed at any time by sale or payment of the U. S. Bonds securing them. No appreciable amount of gold or other money will be required to retire all of both classes of these notes.

This will have the effect of reducing our bonded indebtedness from about \$24,000,000,000 to about \$18,500,000,000, and our annual interest account and sinking fund from about \$1,440,000,000 to about \$1,100,000,000, or an annual saving in the amount to be raised from taxation of \$330,000,000—approximately twice the amount Mr. Dawes has reduced, or proposes to reduce, the national expense account.

As gold is exported or hoarded, and as the population increases, additional money should be issued by the government and put in circulation in the same manner, viz: through the payment of bonds, in order that the minimum volume of money in circulation shall at all times be as much as \$70 per capita. If Prof. Kemmerer can determine the actual amount of money in circulation at a given time, the government should be able to do so at all times.

This means that additional money will be issued to replace what is being hoarded; and also that the prolific cause of financial crises, viz: manipulation of currency and credit, will be removed.

The new money should be money and not notes. The government should say that this dollar shall be legal tender, etc., and not that it promises to pay this dollar on demand, etc. The money should be of similar character to the original greenback, and not the Federal Reserve note. It should be fiat money and not a gold secured note, or any other sort of note.

If, due to the prejudice that has been created against fiat money, it is necessary to make it the government's note, then it should be an inconvertible note, and not a note secured by a gold reserve, for it needs no such security, and it is a wanton destruction of the power of that much gold. The government's note is secured by all of the property and productive power of the people of the United States which it can impress into public service, through its power of taxation.

But if, in deference to the banking fraternity, we must have a convertible note secured by a gold reserve, then this reserve should not exceed 10 per cent, which is all that is needed for redemption purposes, and a much larger ratio than the moneys of all kinds that the

banks now hold for the redemption of their deposit obligations. We now have enough gold in the Federal Reserve Banks and in the United States Treasury on this basis to provide for a circulation of about 30 billion dollars, or about \$300 per capita. We could provide a gold reserve of 40 per cent against a per capita circulation of \$70.

Only Two Countries On a Gold Basis.

According to a recent statement of the Federal Reserve Board published in the Federal Reserve Bulletin, only two countries of the world are now on a gold basis, our country and Japan. According to the same authority, every leading country of the world except ours increased its currency circulation last year. (F. R. Bulletin, July 1921). There is no probability of any of the other countries of the world voluntarily resuming the gold standard for many years, although the money trust is endeavoring to re-establish it throughout the world.

Great Britain was on a gold basis from 1844 up to the time of the war. The British gold secured note is different from ours in that it is the note of the Bank of England, a privately owned and managed institution, and not of the government, as is ours. Perhaps it should be secured by a deposit of gold or its equivalent, for it has behind it only the assets of a private corporation. Obviously our government notes need no such security. The Bank of England's notes are still secured by a gold reserve, but the Bank of England notes have been largely supplemented by the "Bradbury's".

A description of these notes is given in the May 1921 issue of the F. R. Bulletin, page 511:

"The increase in the note circulation which war conditions demanded was provided for in a unique fashion in England. Instead of increasing the circulation of bank notes, as was done in most countries, a new form of currency was issued by the treasury. These are known as currency notes, or more popularly as "Bradbury's", and were authorized by an act of August, 1914, to provide for the exceptional demands occasioned by the outbreak of the war. According to the regulations under the act, they were not to exceed in the case of any bank 20 per cent of its deposits and current accounts. As the war progressed and deposits of the joint stock banks were rapidly enlarged, the issue of currency notes likewise increased."

It will be noted that these notes are based on the amount of the bank's liability to its depositors, and that they are not secured by gold or any other collateral

We abandoned the double standard (gold and silver) in 1873 in order to establish our moneys on the same basis as other countries, and because it then appeared that the production of the gold mines would keep step with the ever expanding needs of commerce. There was no other legitimate reason for it. We must now abandon the gold standard because all of the leading countries of the world have abandoned it, and because it is insufficient in volume. We can conform to their standards of value, but they can not conform to ours. They haven't the gold, and no means of getting it, except by selling us more goods than we sell them, which would eventually bankrupt our industries and impoverish our farmers and laborers.

After all, it is not the kind of currency that matters so much as it is the volume of it. The chief fear of those who so bitterly oppose "fiat" money is the volume that may be issued, and the temptation to increase it. They fear that the printing presses would be worked too strong, that there would be a constant demand from the people for more and more money.

If a mountain of pure gold containing millions of tons should be discovered, the gold standard advocates would want something else or some limitation on the volume of money to be issued from it. Even the Jew, with his inherited love for gold, would not want it if it were cheap and plentiful. They want gold because it is scarce and easily manipulated, and because it enables them to control credit and to prevent it being cheap and plentiful.

Adam Smith in his *Wealth of Nations*, (page 484) says:

"The domestic business of every country, it has been shown in the second book of this Inquiry, may, at least in peaceable times, be transacted by means of a paper currency, with nearly the same degree of convenience as by gold and silver money. It is convenient for the Americans, who could always employ with profit in the improvement of their lands a greater stock than they can easily get, to save as much as possible the expense of so costly an instrument of commerce as gold and

silver, and rather to employ that part of their surplus produce which would be necessary for purchasing those metals in purchasing the instruments of trade, the materials of clothing, several parts of household furniture, and the iron work necessary for building and extending their settlements and plantations; in purchasing, not dead stock, but active and productive stock."

CHAPTER NINETEEN

What the Inflated Dollar Means to Our Foreign Trade

We should as far as possible conform the volume of our money and its consequent value to the volume of the moneys of the other leading commercial countries of the world. That will of itself, when accomplished, ultimately establish a normal exchange ratio which will admit our products to the markets of the world without having to pay the enormous handicap of converting the moneys of other countries into our dollars. It will mean that our values and our wages and our cost of production will be in line with the values and costs of other countries.

Unfortunately there is now no uniform or standard volume of circulation. The currencies of some of the leading countries, such as France and Germany, are very much inflated, and some others, such as Japan, Canada, Sweden, countries of minor commercial importance, are too limited in volume for the needs of a progressive commercial nation, such as ours.

The attached table showing the volume of circulation, gold holding, ratio of exchange, etc., of the leading countries of the world, is a composite of three tables; "No. 1" being taken from 1919 report of Comptroller Williams for the year 1919; "No. 2" from Economic Conditions, published by the National City Bank; and "No. 3" from the June, 1921, issue of the F. R. Bulletin.

(See Table in Appendix at end of book)

It will be noted from this table that the per capita circulation of Great Britain is \$69.76, which is only 24c less than the amount I suggest for the United States, and that this amount is far less than all the other leading nations of the world except Norway and Spain, comparatively unimportant commercial countries, which have a per capita circulation of \$61.26 and \$64.28 respectively, three times more than we have.

It will be observed also that the exchange ratio is not governed wholly by either the ratio of gold to the outstanding notes or by the volume of currency. While both of these factors have an important bearing in fixing the exchange value of money, neither of them is conclusive. Speculation is now an important factor. The exchange value of money means the "power which the money of the country has of purchasing the money of other countries." The ideal therefore is to establish the moneys of all countries as nearly equal in kind and volume as possible. If the moneys of all countries were of equal value, the exchange ratio would be, at the most, only the cost of the shipment of money from one country to another, which is in fact the normal ratio.

This is truly the day of the money changer. Exchange is traded in as is corn, wheat, cotton and stocks, and the market fluctuations are as violent. In fact, the exchange markets are now more easily manipulated than the stock and commodity markets, and they are as unscientific, as uneconomical and as burdensome to commerce and industry as are the other speculative markets.

The following circular recently sent out by a New York brokerage firm illustrates the exchange value of money and the enormous purchasing power of the American dollar:

"With Exchange at Normal:

Warsaw 5's would have a par value 119 times greater than present selling price.

French 6's would have a par value 4 times greater than present selling price.

Italian 5's would have a par value 6 times greater than present selling price.

Berlin 4's would have a par value 16 times greater than present selling price.

"Based on prevailing quotations, a Warsaw 5 per cent Bond of 10,000 marks denomination can be bought for \$19.85. With exchange at normal, it would have a par value of \$2,380 and would yield \$119 interest annually. Berlin 4's of 10,000 marks would cost \$150, or nearly 8 times more, with an opportunity of increasing in value only 16 times, etc. As security against this loan, Warsaw has pledged \$48,000,000 worth of property, against which there is a debt, including this issue, of only \$3,000,000."

American money can now buy the lands, the factories, the railroads, and the securities of the world at bargain

prices. This may in part account for the fact that the big banks are delighted with the existing financial system, the existing value of the dollar, and the existing state of the exchange market.

A vast amount of American money is now going into the properties and securities of other countries. There is no way of approximating the amount, for the most of these transactions are private, and many of them secret. Occasionally public offerings of securities are made, as is the one cited. The quotation below is a sample of the press dispatches that appear from time to time:

"New York, Aug. 4, 1921.—German Mills Rumored Backed by U. S. Interests. German piece goods mills seeking to control the South American market are rumored to have the backing of certain large financial interests which are behind groups of mills in this country. Whether it is their intention to sell to this market later, or whether it is their purpose to steer distribution away from this country, is not indicated."

A Protective Tariff Necessary.

There has been a notable change on the part of the big manufacturers toward the tariff within the past few months. These foreign investments may explain it. It is quite easy to understand the reasons that induce the international bankers to turn free traders. They realize that there must be an adverse trade balance against this country, an excess of imports over exports, in order to pay their bonds.

The reason for the change of heart on the part of the big manufacturers is not so apparent. According to the circular quoted, factories in France can be bought at one-third the cost here; in Italy one-sixth; in Berlin one-sixteenth; and in Poland 1—119th. They can be operated on money having the same relative value, and perhaps with cheaper and more willing labor than here. They will manufacture for the export trade particularly, where it is to their advantage to do so. With free trade and low steamship rates, they may be able to manufacture their goods abroad and import them here cheaper than they can make them here. Without a protective tariff they will have an advantage over both their domes-

tic labor and their less fortunate small competitors who do not own foreign plants.

The recent war demonstrated to me the wisdom of our protective tariff policy, particularly for the protection of our raw materials and other essentials, which prior thereto I had always opposed. I believed then, as I do now, that our great steel and other industries had been fostered and built up by a protective tariff, which I had always thought unfair and burdensome to the consumer. I saw these industries furnishing munitions and supplies to the Allies, who were unprepared and sorely pressed. I saw that there was no other country from which they could get them, I realized what a catastrophe might have happened to the world and to us but for our tariff-protected industries—our protective tariff policy, against which I had so often railed.

And then I saw the German army superbly organized, prepared and equipped; and the German nation fighting the world, proud, and haughty and unafraid; and that inspiring the confidence of this army and people were years of the most careful preparation for war, mammoth steel and other industries, all on a war basis—lacking only the one essential—raw material. I saw the English grimly prepare for a long and bloody war, relying upon starvation for victory; the embargo and the submarine warfare in reprisal were both for the purposes of starvation. I realized then, as I never realized before, the great strength of our country, having within its boundaries all of the raw material and the basic elements of life and strength to armies and people in war and peace. I realized then that our sugar rationing was in part due to a mistaken tariff policy. I realized then how important it is to the welfare of this country to protect its industries and agriculture against the competition of cheap labor or more favorable conditions.

The farmers and livestock producers now need it far more than does the manufacturer, and the need will grow as time advances. This is particularly true of the cattleman, sheepman, corn, wheat, rice, peanut, sugar-cane and cotton growers. These are all basic industries, necessary to our prosperity in peace and strength in

war. We must protect them so that they will prosper and keep step with the increasing demands of our great and growing country. We must not destroy the market for 93 per cent of our products in order to develop a market for a 7 per cent surplus, a large part of which the world must buy regardless of tariffs. It is better to cut out the 7 per cent surplus.

It is the duty of congress to regulate the value of foreign money. Congress cannot delegate this duty to the Federal Reserve Board, and it should not be left to the money changers and gamblers. It is a duty that has long been neglected, and the country now suffers terribly from such neglect. Equalizing the volume and value of our dollar with the British unit and the abandonment of the gold standard, will not quickly and completely solve the problem. More than this should be done until world conditions become better settled and adjusted, and the governments of the world more stabilized.

A combination of the plan suggested by Mr. Crissinger, viz: of establishing a fund of gold to effect these international exchanges, and of the "ter Meulen" plan, should be promptly adopted. Briefly stated, the ter Meulen plan, which was intended to be operated under the auspices of the League of Nations, requires the governments to guaranty and properly secure the obligations due by their subjects to the subjects of other countries. Adequate provision is made for enforcing payment in case of default.

Undoubtedly the Federal Reserve Board and the International bankers could themselves have stabilized foreign exchange in such way as to promote our foreign commerce, but neither of them desired to do so because the effect would have been to keep up the price of commodities and nullify their efforts to deflate. Congress is given the power and charged with the duty, and not them, therefore the responsibility for the consequences that have resulted from a failure to discharge the duty must rest with congress.

It is beyond the power of congress now to indemnify the producers of this country and the consumers of other countries against the enormous tolls that have been im-

posed on them during the 3½ years since the armistice. It is also beyond the power of congress to reimburse foreign owners who have sold their properties at nominal prices due to the abnormal exchange rates. But congress should be able to find some means of relief against such usurious transactions as those relating to the bonds of the City of Warsaw quoted above. The City of Warsaw should only be required to pay the \$19.85 loaned, with interest, and not \$2380, the face of the bond.

This is not a legitimate speculation, nor is it legitimate to speculate on the necessities of the destitute and helpless foreigners, the victims of a war waged partially in our interest. It is beyond their power and the power of their governments to stabilize the exchange rates; they are needy borrowers who are forced to accept the money on any terms that we prescribe. We are the rich creditors (supposedly so); as such we have the power to fix the exchange rate; our constitution lays this duty specifically upon our government, and the existing situation is due to the failure of our government to discharge its duty under the constitution, and as a just and human creditor.

If congress can do nothing more, it can at least proclaim to the world that it is the conscience of this country and the desire of the government that our money lenders and bond holders be repaid only the amount of money actually loaned, with a reasonable rate of interest thereon. It can invite the governments of other countries to take the necessary action to protect their citizens against the harsh and usurious terms that have been imposed upon them by our money lenders. Unless some such affirmative action is taken the odium of these transactions will attach to this country. We will be regarded as a nation of Shylocks and usurers; as a people who will take advantage of the necessities of allies and comrades in arms, instead of seeking to aid and relieve them.

We had as well recognize now as later that there is no chance for the most of the European governments to pay the face amount of their obligations in gold. The re-establishment of the gold standard in the coun-

tries that formerly maintained it means the repudiation of their debts. If it is our national policy to maintain the gold standard, and to endeavor to re-establish it in other countries, then it should be our national policy to promptly bring about a general forgiveness of debt. It is far better to cancel the obligations voluntarily than to force their repudiation, which may eventually lead to revolution in many countries. There are only two ways in which the governments and peoples of Europe can pay their obligations, one in gold and the other in goods.

There is, in fact, but one way, and that is in goods, by exporting more than they import. That is the only way they can get gold beyond the limited amount they produce from mines. Gold is used to settle the adverse trade balances created by the sale of goods. If all the countries of Europe, or any considerable number of them, export more goods than they import, we must necessarily export less than we import; it is the only way they can get our gold. This means that we will in the last analysis pay a large part of the debts of Europe; worse than that, it means European prosperity and American poverty.

CHAPTER TWENTY

Universal Bankruptcy Is the Price the World Is Paying for Deflation

The following table showing the national wealth and bonded indebtedness of the leading countries of the world is taken from Finance and Commerce. It has been carried in its columns without change for more than a year. Assuming the correctness of it in the first instance, the values in all countries would be less than stated, due to the world wide depression, and the national indebtedness would be more, due to the fact that most countries failed to meet their national expenditures.

“NATIONAL DEBTS AND WEALTH:

| | | | Per Cent |
|-------------------|-------------------|------------------|----------|
| British Empire | \$230,000,000,000 | \$45,800,000,000 | 19.9 |
| France | 100,000,000,000 | 51,000,000,000 | 51.0 |
| Russia | 60,000,000,000 | 25,400,000,000 | 42.3 |
| Italy | 40,000,000,000 | 19,600,000,000 | 49.0 |
| Japan | 40,000,000,000 | 1,840,000,000 | 4.6 |
| Germany | 20,000,000,000 | 62,500,000,000 | 312.5 |
| Austria) | | (17,700,000,000) | |
|) 1,000,000,000 (| | 2710.0 | |
| Hungary) | | (9,400,000,000) | |
| United States | 500,000,000,000 | 23,770,000,000 | 4.7" |

I assume that these values are based on the American dollar; if not, the national wealth of Germany stated in American money is only a little more than \$1,000,000,000. There is to be added to the German national debt, as shown here, the amount of the reparations as finally determined in May, 1921, which amounts to approximately \$26,000,000,000, all to be paid in gold. These bonds provide for 6 per cent to cover interest and sinking fund, which means an annual payment of approximately \$1,250,000,000 in gold. Germany at this time only has approximately \$260,000,000 of gold. She must get the balance of her gold from countries that have it,

such as ours, by selling more goods than she buys. There is no other possible way.

The latest estimate of the wealth of our own country is \$288,500,000,000, which means, if both estimates are correct, that the deflationists have reduced our property values about \$221,500,000,000, which is \$21,500,000,000 more than I have estimated the reduction. If our national wealth is in fact now only 288 billion, and our indebtedness is in fact 274 billion (internal debt 250 billion and government bonds 24 billion), then we are rapidly approaching a state of insolvency. The interest and tax charges will soon consume, if they do not already do so, all of the earnings of productive industry. If the indebtedness is not cheapened it will eventually be cancelled. The remedies I have suggested may now appear to some members of the banking fraternity to be radical, but they will be considered ultra conservative in comparison with those that will be adopted unless we are given early and effective relief. The American people will never submit to slavery to the tribe of the usurer.

The estimates of our national wealth and of our internal debt are unofficial, and are, therefore, only approximations. "Commerce and Finance" recently reduced its estimate of our national wealth from 500 to 350 billion dollars. This no doubt represents Mr. Theodore Price's estimate of the deflation of values during the past year, which, it will be noted, amounts to 30 per cent. My estimate is 40 per cent, or 200 billion dollars, and my arguments are based upon that estimate. If Mr. Price's estimate is correct, then my deductions are wrong to the extent of 25 per cent.

Whether the deflationists have cost us 150 billions, or 200 billion dollars, or some other sum, the loss is a real one, both of individual wealth and individual earning power, and of national wealth and of national earning power. If our gross bonded and individual indebtedness is equal to the gross value of all our property, then the earnings of labor and of industry must go to the bond holder and money lender; but if the gross value of our property is double the aggregate amount of our indebtedness, then only one half of the earnings of labor

and industry will be required for money lenders interest.

Undoubtedly there has been a very great increase of our indebtedness during the seven years since 1914; it seems conservative to say that it has been more than doubled. If it was then about 100 billion, it must now be more than 200 billion. Undoubtedly there has been an enormous decrease in values since May 18, 1920, whether 30 or 40, or some other per cent. You can look about you and make your own estimate.

We have substantially the same property we had in 1914; the same lands, railroads, factories, mines and supplies of various kinds. We have had some additions to our factory capacity, but practically none to the other items of property. When our values are reduced to prewar levels, our increase of wealth during the past seven years will be practically represented by the aggregate amount of the trade balance in our favor during that period, of about 22 billion dollars. This is composed of doubtful European credits that are unavailable, and gold, whose usefulness has been destroyed and that lies buried in the 12 Federal Reserve District mausoleums, beyond the reach or vision of any except its custodians. So far as its vitality and usefulness is concerned, it had as well be in the ore from which it was extracted, or sunk to the bottom of the sea.

The Cost of Deflation.

We have nothing to show for seven years of labor, under high pressure, except doubtful European credits and gold that has turned to chaff in the hands of its administrators, and a burden of debt and of taxes that is well nigh unbearable. Our interest charges are disguised and sugar coated in so many ways that we do not realize the enormous amount of them, and it is well for our credit system that we do not. It forms a large part of all our taxes and rents, of all of our freight and other public service charges, of everything we buy and sell, and of that aggregate of all charges that we call the "cost of living." It is by far the largest element in the cost of living. Labor ranks next, but labor does not enter into all of our transactions as does interest. Interest takes its toll at every turn, it works

night and day, it has no holiday or Sundays, it is unaffected by the weather, and it has no intermittent periods of unemployment and depression. For these reasons, and because of the highly organized power of money, interest finally absorbs the profits and surplus of industry.

If the argument of our modern school of hired economists is sound, then we are very much poorer now, as a nation and individuals, than we were in 1914, because we have had no substantial increase in the volume of our property and an enormous increase in the volume of our indebtedness. We are in fact very much poorer at this time, individually and nationally, than we were in 1914, because we have our values contracted to about the 1914 level without a corresponding contraction of our debts. But in May 1920 we were very much richer than in 1914, because our values then and our earning power were approximately twice as great as in 1914.

The deflationists have practically confiscated the equity we had in our property on May 18, 1920. It virtually belongs to them, whether they take physical possession of it or not. If they leave it in our charge to manage and worry with, we will be virtually laboring for them as their trustees and managers, for they will get substantially all of the earnings.

The deflationists have also reduced the value of government property enormously. The government has sold during the past 12 months immense quantities of surplus war supplies for at least 50 per cent less than could have been realized from them up to May 18, 1920. We have the spectacle of one department of the government deliberately depreciating the value of the property under the jurisdiction of other departments, which must be sold. I haven't sufficient data to estimate the amount of this loss, but it runs into the millions. In the last analysis, it is an added burden to the tax payer.

The following quotation is from a recent statement by Mr. J. S. Wannamaker, a banker of St. Matthew, S. C., and President of the American Cotton Association, published in "Cotton News" of Sept. 1st, 1921:

"In my testimony before the joint Agricultural Commission, I showed that the world's debts have increased from \$43,106,-

495,000 in 1913, approximately to \$300,000,000,000 in 1920, or over 600 per cent, while the great majority of nations are still finding it necessary to increase their outstanding obligations to provide funds necessary to meet their budget requirements. The debts of the United States government have increased from \$1,028,564,000 to \$24,062,510,000 in a similar period, which includes monies due from foreign governments. The effect of this added burden is expressed in taxation, either direct or indirect, in the form of increased costs on all transactions which permeate and multiply and enter into the affairs of the world's entire population, increasing the cost of all production, distribution and consumption, and exacting its tithe at every turn from producer to consumer. * * *

"Paradoxical as it may seem, deflated values mean increased cost of production; for deflated values mean reduced revenues, and reduced revenues mean increased taxation, and increase taxation means added cost of production. The world cannot incur a debt of such magnitude upon a basis of inflated values and liquidate it upon the basis of deflated values. In accumulating this vast increased financial burden for war debts, we will be compelled to follow the history of natural progression and adapt our selves to the changed conditions, rather than attempt under the radical change in economic conditions to return to a prewar basis. **A return to prewar basis would wreck every existing government. Ignoring this fact in the effort to force prices back to a prewar level, has paralyzed agriculture, throttled commerce, stagnated civilization and imposed burdens upon us that will require unborn generations to discharge.**

"Five years of war created sociological and economic changes which would not have developed in five hundred years of natural evolution—changes which will compel the acceptance of and adjustment to an elevated standard of values as a permanent inheritance. Following all wars we have inflation, due to destruction, non-production and to the fact that governments inflate for the purpose of financing wars. We find through the records of history from a period of one thousand years before the birth of Christ that from time to time great money powers have taken advantage of the people during these inflated periods and have gained vast wealth at the expense of the masses through artificial deflation, conducted by usurious interest rates, contraction of the currency, and restriction of credits."

The following quotation is from an address of Hon. Reginald McKenna, former Chancellor of the Exchequer of Great Britain, and now president of one of the world's largest banks, the London Joint City and Midland Bank, published in the Clarion, an English newspaper, and reproduced by Mr. Williams in his testimony before the Congressional Commission, (p. 258):

"Let us look at the policy of monetary deflation to be obtained by a high bank rate and a restriction of credit. Let us suppose that it were practicable by this process to bring prices permanently down to the prewar level. What sort of charge would our national debt then mean to us? It ranks today at 9,700,000,000 pounds, mostly borrowed when money was worth very much less than before the war. With prices back to their former level, the true burden of the debt would be more than doubled, or, in other words, the creditor would receive a huge premium at the expense of the debtor. I think I have said enough to show that an attempt at monetary deflation of this kind can only end in the strangulation of business and widespread unemployment."

The editor of the Clarion, commenting on this statement, says:

"Thus, in Mr. McKenna's opinion, the Government policy now being carried out by the banks, the policy of reducing the supply of money for industry, will inevitably result in—

1. The robbery of the majority of the people for the benefit of a few rich.
2. An unbearable rate of taxation.
3. Widespread unemployment.

Mr. McKenna on this question is in entire agreement with us. He says:

"Monetary inflation, unlike speculative inflation, is not a temporary condition capable of remedy by raising the bank rate and restricting credits. Prices in this case are forced up over a protracted period of time, wages and contracts of all kinds are adjusted to new price levels, and fresh capital is embarked in business on this basis. In circumstances such as these the first effect of an attempt to force down prices by monetary deflation must be to cause severe trade depression * * * * The consequences of a continuous fall in prices entailed by dear money and restriction of credit, and accentuated by heavy taxation, must be complete stagnation of business."

The Fight for Contraction.

The following quotation is from Hon. Arthur Kitson, President of the British Banking Reform League, (p. 36, of his book "Money Problems," and reproduced in Mr. Williams' testimony, p. 259):

"The contraction which followed the Napoleonic wars when our statesmen destroyed the 'cheap' money which had enabled Great Britain to carry on her industries during the long war period from 1797 to 1815, and substituted the costly and inadequate gold basis, brought about the great fall of prices and that era of business depression which gave rise to the corn law agitation, resulting in the Chartist riots and the rise of the free trade movement. Neither free traders nor tariff re-

formers seem to have understood that that period of social misery was directly attributable to the Government's contraction of the money supplies. As previously stated, these disasters ended as soon as the supply of money was increased sufficiently to meet the needs of commerce.

"We find precisely the same results in the history of the United States. Their Civil War was successfully waged and their industries prospered by means of an abundant supply of paper money. But no sooner was peace declared and the contractionists had succeeded in reducing the currency supply, than trade began to decline and an era of falling prices, business depression, unemployment, and social distress, set in. For the past 3 years we have been experiencing merely a repetition of former results under currency expansion. Every nation is forced to rely upon its credit during great national crises. No nation has ever been able to wage a great or prolonged war, or to weather a great political crisis, on a precious metal basis. Our trade and industries for the past 3½ years have been and are being carried on successfully at the same time that we are waging the greatest war in the world's history.

"Nothing but an abundant supply of currency in the shape of legal tender notes and bank credit could have enabled us to undertake such unprecedented burdens. For the first time in our industrial history unemployment has practically disappeared, whilst labor was never so well remunerated. Any attempt to destroy this paper currency after peace is declared will constitute an attack on the national welfare, and, if accomplished, will result in a repetition of the economic disasters which have always accompanied periods of contraction.

"As further proof of the fact that the chief barrier to increased output of wealth is an insufficiency of currency, the address of Sir Edward Holden on the 'depreciation of securities in relation to gold' delivered in Dec. 1907, to the Liverpool Bankers Association, and previously referred to in former articles, may be cited. In that illuminating address Sir Edward showed conclusively that the maximum amount of trade which is possible depended upon the volume of bank loans allowed, and that the extent to which loans could be granted depended not upon the demands of trade, nor upon the amount of securities offered, but upon the amount of legal tender reserves controlled by the banks."

The moneyed interests of Great Britain have also deflated both currency and credit, either in cooperation with our Board and bankers, or following their example. But they have not deflated either currency or credit or reduced values to the same extent that our Board and bankers have. The unemployment and industrial situation in England seems to be equally as bad as our own, and the political situation much worse. In fact, the

British Empire may collapse, not because of the Sein Fein movement or the invasion of a foreign foe, but from the same causes that brought about the destruction of the mighty empires of Greece and Rome. This will eventually be the fate of both Great Britain and America unless the cancer that is now eating at the heart of the two nations is completely removed, together with its infecting virus. Rome was the equal both in population and area to our own country when the barbarian hordes swept down from the north. The historian records the fact that the patriotism and morale of her citizenship and the corruption of government had sunk so low that there was no defense against the invader.

CHAPTER TWENTY-ONE

The Issue Between the Farmer and the Laborer and the Bondholder

Now that the deflationists have reduced the volume of actual money in circulation to less than \$20 per capita, they have begun an educational campaign against the quantitative theory of money. They now seek to show that the volume of money has nothing to do with values, and that there is nothing therefore to be gained by increasing it.

If a bill should be introduced in congress to establish a fixed per capita circulation of \$70 they would all be found against it. They would then argue that the volume of money makes an awful difference, and such a vast difference as would ruin the country; that it would cause inflation of values, undue expansion, rank extravagance, all kinds of speculation, depreciation of the dollar, and all of the other evils that are so abhorrent to the eminent financier.

Now that they have the situation in hand they speak differently; and likewise speak their paid staffs of special correspondents. In May, 1920, there was not sufficient money to support credit at the values that then obtained; values must be reduced and loans liquidated in order to build up bank reserves; now the volume of money is unimportant.

Even at the present level of values, they still maintain that money can not be loaned for "capital and speculative purposes." A financial system that will not furnish credit for the ordinary needs of the citizens, and that will not permit the citizen to be the judge of those needs, is inadequate and intolerable.

The great financier regards the man who needs additional capital for his operations as a mendicant; and the speculator, except the exchange speculator, as an outlaw, beyond the pale of banker recognition. With the exception of the banker and salaried man, we are all in truth speculators, and the farmer and stock

raiser is the greatest of us all; he takes greater chances for less prospective returns than any of us. The business man speculates on disposing of his goods at a margin of profit over and above cost, and he must buy judiciously with that end in view; the man who buys other kinds of property, real and personal, speculates on realizing a profit; and the one who establishes a factory or builds a railroad, develops a mine, or drills an oil well, speculates on getting back his capital with a profit sufficient to cover the risk. The recent Unemployment Conference, held under government auspices, recommended as the remedy a construction program by governments, municipalities, corporations and individuals, but this involves capital and speculative loans, which another branch of the government, the Federal Reserve Board, still frowns upon.

The only cinches are salaries and interest. But it was not the satisfied salaried men nor the timid bankers who developed the wonderful resources of this country, improved its farms, built its railroads and factories and cities. They were not the pioneers who came here and settled the country and established our government and our civilization. They are not the class now who support it most, who pay its taxes, and must pay its bonded indebtedness. It was and is none other than the bold, bad speculator; the man of vision and courage who is willing to stake his all upon his convictions. Destroy the speculator and speculation, as the Board and bankers now seek to do, except, of course, the Wall Street variety, and you destroy initiative and enterprise.

If the citizenship of our country was composed only of bankers and salaried men, a per capita circulation of less than \$20 would be more than sufficient for their every need, and a banking system controlled wholly by bankers and salaried men, and operated in their interest, would be all right. If our circulation, including the Federal Reserve notes, is insufficient for "capital and speculative purposes," perhaps an increase to \$70 per capita of real money will allow a little money and credit for these purposes, and a little also for an increase in values; if not, the per capita should be still

further increased. If the increase has no effect on values, as we are now told, then there is no just ground for banker complaint.

We have the same money standard as Japan, and only a slightly greater per capita circulation. We need approximately five times the per capita circulation and credit of Japan, because our volume of business is about five times more per capita; Japan needs more than China; and China more than the Fiji Islands. This crisis was really due to start in Japan, for Japan had the most contracted and inelastic system of money in the world; her values at the time of the crisis no doubt greatly exceeded what they should have been, in view of her volume of money.

Our Need for Cheap Money.

We need a greater per capita circulation and a stronger basis of credit than any other nation of the world, because our commerce is greater in value per capita and in total volume than that of any other people on earth. Denmark has \$210 per capita; France \$200; Germany \$177; and Belgium \$127—against our \$20. All of those countries are now highly prosperous and not one of them has had a panic in more than 50 years, or is likely to have one unless it attempts to artificially contract its currency and credit, in which event a panic will certainly follow.

Cheapening money, and thereby enhancing the value of commodities, will better distribute money throughout the country, and will tend to free the country from the domination of Wall Street. If the price of cotton had continued around 40c for three years longer, the South would have had sufficient money to finance all of its industries and to develop new ones; if for ten years, it would lend money to the east.

Cheapening money will undermine the citadel of Dollardom, and it will therefore be opposed by all of the strategy and power of Dollardom. Cheap money will mean here the general diffusion of wealth that has occurred in France; dear money will mean the extremes of wealth and poverty of England.

A nation's need for currency and credit is measured

by the intelligence, energy, and enterprise of its people, and the volume of their commerce. A banking and currency system is a failure that will not under any and all circumstances afford sufficient currency and credit for their every need; for the full and free development of all of their enterprises and resources, and for disposing of their products in such manner as they desire. Measured by that standard, ours is a conspicuous and unqualified failure. With industry operating about 50 per cent normal, with values around pre war levels, with 40 per cent of the gold of the world, the banks are still liquidating their loans and refusing to make new ones.

It was only a little while ago that we were told that we were entering a new world, and that the farmer and laborer would have more of the comforts of life and would live upon a higher plane. What has changed the prospect, when did the change occur and who brought about the change? The answer is to be found in the proceedings of the Federal Reserve Board and the Federal Advisory Council on May 18, 1920, and Sept. 20, 1920.

The war record of organized labor is not one to be proud of. The threatened strike of the railroad employees and tie up of our transportation system on the eve of entering the war, and the six thousand strikes during the war, are a disgrace to organized labor. If organized labor is to survive and be of service to its members and to society, it must cease its hold-up practices, it must stand for an honest day's labor as well as for high pay, and it must have a higher appreciation of its duty to the public. Organized labor has been of value to its members, and indirectly to society, and it is capable of much greater service if it recognizes its duty to the employer and to society as well as to its membership.

It is to be said in extenuation of its war record and the radicalism in its ranks that labor had never before received a fair wage, and that organized labor has always earnestly opposed the immigration policy of our government. Three times congress has attempted to restrict immigration, and to insure a better class of im-

migrants by the literacy test, and the proposed law has been vetoed, twice by Republican Presidents and once by a Democrat.

A greater power than organized labor has stepped in at the last moment and directed a Presidential veto. Organized labor has eliminated the threatened competition of these immigrants by admitting them into its organization, which thereby has lowered the general character and morale of its members. The responsibility for this, as well as for most of our other ills, is primarily with the Invisible Empire.

God has impressed upon man the duty and the necessity of labor, and He has made labor the road, and only road, to man's development and happiness. We should hear more of the dignity and nobility of labor, and less of the hours of labor. The man who does not labor is to be pitied and not envied. It is idleness that hurts us and not labor, and we should, therefore, seek to labor to our full capacity, and not to rest every possible moment.

The Farmers Should Organize.

The farmer is only beginning to organize. It is a pity that it is necessary for him to do so, but under existing conditions his interest imperatively demands it, for he can not get a square deal otherwisc. He will probably also, in time, abuse his power. If he should strike, which he is certain to do if there is not a very great improvement in the market for his products, it will be a strike the consequences of which will be very far reaching, and beside which even the strike of "capital against society" (as it has been properly called) will pale into insignificance.

The American farmer is now the chief cornerstone of capitalism and of civilization. Like the air we breathe, the water we drink, the sun that makes us glad, we take him for granted, and he has never yet failed us. We expect too much of him, and have been unmindful of his interest. We cry to him always to increase the food supply and to reduce the cost. We leave his markets to the gambler and the profiteer. Assure the farmer a profitable market for his products, and he may be de-

pended on to solve the farm tenancy and illiteracy questions, and to get rid of the pellegra pestilence, and to make farm life attractive to his children.

The farmer and the laborer never received fair compensation for their toil prior to the war; others have profited too much by it and they too little. The farmer did not receive an adequate price even during the war; three-fourths of the cattle raisers have lost money every year during the past seven years; \$400 per annum was the average income per family of the cotton farmer during the same period of time. It has been necessary for both the farmer and the laborer to organize for self preservation, which ought not to be. They are the real producers of wealth, and they are entitled to a larger share of it than they have ever enjoyed. The issue is prosperity for the farmer and laborer, which the banker calls "inflation," or prosperity for the bondholder, which he calls "normalcy".

CHAPTER TWENTY-TWO

How the Ancients Regarded Interest—Congress Should Fix the Rate

The contest between man and money is an ancient one. Money has always been the victor, only to destroy itself and all things else with it. The lessons of history and the conditions and tendencies of the times demand the thoughtful consideration and the patriotic effort of us all—both borrower and lender, both producer and non-producer, both Jew and Gentile, and both Democrat and Republican.

An Age Old Conflict.

The Encyclopedia Britannica gives a brief history of this age old conflict, in Vol. 24, p. 18, under the head of Usury:

"The conditions of ancient usury find a graphic illustration in the account of the building of the second temple at Jerusalem, (Neh. v. 1-12). The reasons for borrowing are famine and tribute. Some said, 'We have mortgaged our lands, vineyards, and houses, that we might buy corn, because of the dearth;' others said, 'We have borrowed money for the King's tribute, and that upon our lands and vineyards . . . and, lo, we bring into bondage our sons and our daughters to be servants, . . . neither is it in our power to redeem them, for other men have our lands and vineyards.' In ancient Greece we find similar examples of the evil effects of usury, and a law of bankruptcy resting on slavery. In Athens about the time of Solon's legislation (594 B. C.) the bulk of the population, who had originally been small proprietors or metayers, became gradually indebted to the rich to such an extent that they were practically slaves. Those who still kept their property nominally were in the position of Irish cottiers: they owned more than they could pay, and stone pillars erected on their land showed the amount of the debts and the names of the lenders. Usury had given all the power of the state to a small plutocracy. The remedy which Solon adopted was a kind that we are accustomed to consider as purely modern. In the first place, it is true that according to ancient practice he proclaimed a general *seisachthela*, or shaking off of burdens: he cancelled all the debts made on the security of the land or the person of the debtor. . . .

"When we turn to Rome, we find exactly the same difficul-

ties arising, but they were never successfully met. As in Athens in early times, the mass of the people were yeomen, living on their own small estates, and in time they became hopelessly in debt. Accordingly the legislation of the XII. Tables, about 500 B. C., was intended to strike at the evil by providing a medium rate of interest. Unfortunately, however, no alteration was made in the law of debt, and the attempt to regulate the rate of interest utterly failed. In the course of two or three centuries the small free farmers were utterly destroyed. By the pressure of war and taxes they were all driven into debt, and debt ended practically, if not technically, in slavery. It would be difficult to over-estimate the importance of the influence of usury on the social and economic history of the Roman republic. In the provinces the evils of the system reached a much greater height. In 84 B. C. the war tax imposed by Sulla on the province of Asia was at first advanced by Roman capitalists, and rose within fourteen years to six times its original amount. It is interesting to observe that the old law of debt was not really abolished until the dictatorship of Julius Caesar, who practically adopted the legislation of Solon more than five centuries before; but it was too late then to save the middle class. About this time the rate of interest on first-call security in the city of Rome was only about 4 per cent, whilst in the provinces from 25 to 50 per cent. were rates often exacted. Justinian made the accumulation of arrears (anatocismus) illegal and fixed the rate at 6 per cent, except for mercantile loans, in which the rate received was 8 per cent. On the whole, it was truly said of usury during the republic and early years of the empire: 'Sed vetus urbi fenebre malum et seditionum discordiarumque creberrima causa.' Even when it came to be authorized by Roman law under certain restrictions, it was still looked upon as a pernicious crime. Cicero mentions that Cato, being asked what he thought of usury, made no other answer to the question than by asking the person who spoke to him what he thought of murder.'

"It was only natural, considering the evils produced by usury in ancient Greece and Rome, that philosophers should have tried to give an *a priori* explanation of these abuses. The opinion of Aristotle on the barrenness of money became proverbial, and was quoted with approval throughout the Middle Ages. This condemnation by the moralists was enforced by the fathers of the church on the conversion of the empire to Christianity. They held usury up to detestation, and practically made no distinction between interest on equitable moderate terms and what we now term usurious exactions. The consequences of the condemnation of usury by the church was to throw all the dealing in money in the early Middle Ages into the hands of the Jews. * * * *

"It was probably mainly on account of this money lending that the Jews were heartily detested and liable to such gross ill-treatment by the people. A curious illustration of this popu-

lar animosity is found in the insertion of a clause in the charters granted by Henry III to Newcastle and Derby, forbidding any Jew to reside in either place. Ultimately, in 1290, the Jews were expelled in a body from the kingdom under circumstances of great barbarity, and were not allowed to return until the time of Cromwell."

Lessons from History.

Money during all of the ages has occupied a position different from other kinds of property. The charging of interest for its use has always been questionable morally and economically. The Scriptures, both the Old Testament and New, clearly forbid the charging of interest, and denounce all interest as usury and as an offense in the sight of God.

Justinian and Solon cancelled all debts and thereby acquired their fame as wise rulers and great law givers. The jubilee year of the Jews, which occurred every 50 years, was the year of forgiveness of debt and redistribution of property.

"The Romans at the end of the first Punic War reduced the As, the coin or denomination by which they computed the value of all their other coins, from containing 12 ounces of copper to contain only 2 ounces; that is, they raised 2 ounces of copper to a denomination which had always before expressed the value of 12 ounces. The republic was, in this manner, enabled to pay the great debts which it had contracted with the sixth part of what it really owed.

"In the course of the second Punic war the As was still further reduced, first from 2 ounces of copper to one ounce; and afterwards from one ounce to half an ounce; that is, to the twenty-fourth part of its original value. By combining the three Roman operations into one, a debt of 128 millions of our present money might in this manner be reduced all at once to a debt of five millions, three hundred and thirty three thousand, three hundred and thirty three pounds, six shillings and eight pence. Even the enormous debt of Great Britain might in this manner soon be paid." (Adam Smith's Wealth of Nations, pages 472, and 474).

(Note. It was not the reduction in the inherent value of the copper that reduced the national debt, but it was the fact that by reducing the ounces of copper in the coin they were able to issue a larger volume of money; with the same amount of copper they were able to issue and did issue twenty-four times the volume of money.)

Rome was a material empire that was ever extending her realms and always engaged in war, and therefore

always increasing her national debt. She obtained her money lending system, along with many of her other institutions, from the then decadent Grecian empire. Her money system contributed more than any other cause to her decay and dissolution. Despite the fact she continually cheapened her money, the money lenders constantly increased the rate of interest, and therefore the rich continued to grow richer and more effeminate, and the poor, poorer and more degenerate. There was a period of nearly 1200 years following her overthrow during which the charging of interest was prohibited in all countries under severe penalties, and was practiced in only a very secret and limited way by the Jews, who owned and hoarded most of the money.

It was not until the 16th century that the hiring or lending of money for a reasonable rate of interest was again legalized; excessive interest was then made usurious, instead of all interest. The Jew during all of the ages and in all countries has been until recent years the leading money lender. He has taught us much of our modern commercialism, and we have imbibed with it much of his spirit, philosophy, and characteristics. His personal influence and power does not predominate in high finance in America today to the extent that it does in most other countries, but the business ideals, methods and principles of the Jew are our commercial ideals, methods and principles. His American disciples can teach him tricks that he never knew. It is said that the Jew assists his distressed brother Jew, but not so with the Jewishized Gentile; with him, it is the survival of the fittest, and the devil take the hindmost. It is said that the Jew, even now, does not collect interest from the members of his own race, but the Jewishized Gentile makes no distinction as to race, color, or previous condition of servitude; he levies all that the traffic will bear. The orthodox Jew justifies himself in charging the Gentile interest by Deuteronomy, ch. 23, vs. 19 and 20:

"Thou shalt not lend upon usury to thy brother; usury of money, usury of victuals, usury of anything that is lent upon usury. Unto a stranger thou mayest lend upon usury."

There is no vice per se in lending money at interest;

the ban placed upon it by divine and temporal law was due to the power and the abuses inherent in money lending, and that have always attended it. There is something about the lending of money that dims the vision, swells the head, and hardens the heart. Our banking system is now established, whether wisely or not in the first instance; our commercial system is adjusted to it; it is within our power to control it, and we should direct our efforts in the direction of doing this, rather than to bring about its destruction.

Congress Should Fix the Interest Rate.

It is the duty of Congress to fix the rate of interest to be charged for the use of money by the Federal Reserve Banks and also by all national and state and private banks and trust companies. The rate of interest is the expression of the value of money, and it tends to regulate the volume of money in circulation. As the rate goes up the volume in circulation is restricted and money becomes "tight"; as it goes down money becomes "easy" and the supply more plentiful. The rate is the adopted method of the Federal Reserve Board for controlling credit, which it has employed quite successfully. It is the British method. England formerly had easy money because the Bank of England normally kept the rate low. It is doubtful if the government can effectively control the volume of money in circulation without fixing the rate. It is beyond dispute that it cannot regulate the value of money except by establishing the volume and prescribing the rate of interest to be charged for its use.

The rate of interest being an important factor in the value of money, it is the duty of congress under the constitution to fix it. For some inexplicable reason it has never exercised or attempted to exercise the power given by the constitution to regulate the value of money, and the present shameless orgy of usury is the result. It is a singular fact that congress and the Federal Government have employed every power granted by the constitution except the power given by this section. It is doubtful whether under the constitution congress can fix a maximum rate giving banks and others the au-

thority to charge any rate not exceeding this maximum, as is provided in the various usury laws of the states, for this involves the power of banks and others to determine the value of money. It is doubtful, also, if it is desirable that rates should fluctuate, as they have always done. The correct construction to be placed upon the constitution appears to be that congress shall establish a fixed rate for the use of money, for otherwise it can not establish and regulate its value. The fluctuations in the supply of money and the rates charged for its use, and the consequent business expansions and contractions—periods of extravagance and depression—furnish an unanswerable argument for a fixed rate as well as a fixed supply of money.

Clearly the duty imposed upon congress involves the power to fix the rate to be charged by individuals as well as banks, and to prescribe adequate penalties against usury. This is of great public importance, for both banks and individuals constantly charge usurious rates of interest notwithstanding the state laws on the subject. The private banks of New York City that control our great industries and railroads, and through them impose usurious charges upon the public, are under no sort of regulation or restraint.

The State of New York is either without a law against usury or else the law is ineffective. Inasmuch as the corrupt vote of New York City largely controls the politics of New York State and of both of the state political machines, there is no hope of relief from the usurers of this, the financial center and Sodom of America, except by act of congress. The money interest of New York City is rapidly absorbing the wealth of the country through its usurious operations, and its manipulation of markets.

Usury laws have always been difficult of enforcement because of the power of money and because the penalties for the violation of the law have been mild and inadequate. If the penalty called for a forfeiture of the principal as well as the interest, and for 12 months imprisonment of the usurer, the law would likely be fairly well enforced.

The rate of interest to be charged for the use of

money should be less than the income from money invested in farm or factory or other productive interests, for money adds nothing to the national wealth. The rate should be high enough to pay the reasonable expenses of the administration of the system with a moderate return as interest. The fixed rate for the Federal Reserve Banks should not exceed 2 per cent, which will, in itself, reduce rates generally. The rates to be charged by banks and others should not be less than 3 per cent or more than 5 per cent.

I concede that this will eliminate many banks, especially the small ones. But we have in fact entirely too many banks. There should not be more than two banks in a city of 100,000 population, nor more than one in a city under 50,000, and none at all in a town under 2,000. The more banks we have, the greater the expense of administration. Interest is as direct a charge upon productive industry as freight rates and taxes; indeed, it is a very large element of both freight rates and taxes. Therefore the expense of the administration is of a public nature of great public importance.

The postal savings bank system can be enlarged in such way as to perform much of the service now rendered by the banks, with far less expense. It should be made to supplement as far as possible the existing banking system. The limit of space set for this book precludes a further discussion of this important subject.

CHAPTER TWENTY-THREE

The Crime of '73, and Efforts of American Statesmen to Undo It

For eight years following the civil war we had gradual deflation from war conditions, and they were all years of very great prosperity. Mention has previously been made of the fact that the volume of our money was reduced by approximately one-half in 1873 through the demonetization of silver, called the "crime of '73," and also of the fact that there is evidence, though not conclusive, that this was done at the instance of British money lenders by corruption through the agency of Ernest Seyd, a British Jew.

On Dec. 23, 1865, a monetary treaty was entered into between France, Belgium, Italy, and Switzerland, called the "Latin Union." The purpose of this treaty, as stated in the first paragraph of the articles of convention, are as follows:

"Animated by the desire to effect a more perfect harmony in their monetary legislation, and to remedy the inconvenience to trade between their respective countries resulting from the diversity of their small silver coins, and to contribute to the uniformity of weights, measures, and coins by forming a Monetary Union, have therefore resolved to conclude a convention for that purpose." (See Report of the Proceedings of the International Monetary Conference of 1878, with Appendix, page 787).

The French Minister of Finance made the following observations in reporting this treaty to the Emperor:

"The attention of Your Majesty has been now for some time directed to that economic movement which is substituting Gold for Silver in the monetary systems of the entire world.

"For ages the yield of Silver has been greater in value than that of gold, and this movement of production favored the maintenance of the relation of 1 to 15½ established between the respective values of the two precious metals in the French monetary system.

"Since 1846 the proportion between the values of the quantities of the two metals annually extracted from the mines has been reversed; the yield of gold has become greater than

that of silver, and it has constantly, although in varying degree, preserved this superiority.

"These great quantities of gold, coming, for the most part, from California and Australia, have thus rendered this metal far more abundant in the issues of coin in all the countries which admitted, it, either as principal money, as for example, England, Portugal, Brazil, the city of Bremen, or as money concurrently with silver, as did France and Italy." (Page 781, same authority).

History of the Gold Standard.

For the purpose of enlarging the scope of this treaty and of establishing an International standard of money, an International Monetary Conference was held in Paris on the initiation of the French government during the month of June, 1867, which was attended by representatives of all of the European countries, and also of America, Mr. Samuel B. Ruggles being the American representative. Among other things, this conference unanimously decided (with the exception of the Netherlands) to establish gold as International Money, and as the single and only standard for the domestic moneys of all of the countries participating in the conference.

Mr. Ruggles advocated the adoption of the gold standard. In the course of his argument he said:

"The value of each of these depends upon the quantity produced, and this quantity is beyond the power of legislation. A diminution of value is, and ever will be, the inevitable result of the increase of supply.

"During the 56 years which immediately preceded the year 1850, the United States coined in gold \$85,588,038, and in silver \$75,322,969, which represents a supply of about 1 12-100 of gold to one dollar of silver. From 1850 to 1866, inclusive, the coinage of gold has been \$759,648,453, and of silver, \$59,027,843, which represents about twelve dollars and fifty cents in gold to one dollar of silver. * * *

"It is, moreover, to be considered that the United States and Great Britain may continue to add, for many successive periods of 15 years, the gold to be produced in America and Australia, which will probably fall little short for each period of \$655,352,323 for the United States, and \$455,235,695 for Great Britain—the amounts respectively coined during the 15 years just elapsed. We will not dwell upon what cannot be forgotten, the possibility of a still more enormous product that would result from the more extensive developments and discoveries in the vast auriferous interior of the United States, a field as yet only partially explored. Without going too far

in measuring the gigantic monetary future in reserve for the world, we simply say that the work of unification can not begin too soon." Pages 825, 826 and 864, same authority.)

It will be noted that the volume of silver we produced was at that time of no consequence. We then produced more gold than any other country, and it was therefore thought to be to our interest to increase the buying power of gold even though we were then a debtor nation. The silver mines of Nevada and Colorado had not then been discovered, and our production of silver was nominal. The observation of M. Feer Hersog, the Belgian representative, made in the course of the proceedings, throws light upon our position of that time.

"M. Feer Herzog adds that as for the objection raised by M. Stas in respect of the United States, he can reply that according to a letter from Senator Sherman, which had been communicated to him by Mr. Ruggles, member of the conference, **opinions are pronounced in America for lowering the dollar value.**" (Page 817, same authority).

Our position even then was for **cheap money**. Silver was then so scarce and high that the view appeared to be that it would cheapen money to retire it entirely. Perhaps the truth is that in view of our prospective production of gold at that time, we desired to insure its use and a market for it.

It should be remembered that at the time the gold standard was decided upon the prospects for an expanding gold supply were not only very much greater than now, but that the needs of commerce were very much less. The annual business of the United States now is probably greater than of all countries of the world at that time. This is true also of our national **debt** now as compared with the national debts of all of the countries of the world, including ourselves, at that time. It is to be observed that the metal agreed upon as the universal standard was the one having at the time greater volume, and that was being produced in greater volume. Silver was then the scarcer and more precious metal of the two, considering the ratio of coinage between the two.

The decisions of the Conference were subject to the ratification of the countries represented. The Conference suggested that this ratification should occur by

Feb. 28 of the following year, 1868. Most of the countries including Germany, which then had the single silver standard, proceeded to ratify promptly. For some reason the United States did not do so; we did not adopt the gold standard until 1873, six years after this Conference. Perhaps the true reason is that during that time the gold mines of California had played out, and no new ones had been discovered; we had become a producer of silver, the very rich mines of Nevada and Colorado having been discovered and developed. Our interest had changed from that of a gold to a silver producing country; we continued a debtor nation, and, by reason of opening up rich mines, silver had become an important item of our money.

The Effort to Remonetize Silver.

When the American people and the government realized that silver had been demonetized, and the disastrous consequences resulting from it, they sought to remonetize it and to restore it to its former position as basic money throughout the world. In pursuance of an act of Congress adopted Feb. 28, 1878, the President called a Monetary Conference of the European nations which met in Paris on Aug. 10, 1878, and which was attended by representatives of all the European countries except Germany and Spain. The American representatives in this conference were Messrs. R. E. Finton, W. S. Groesbeck, Frances A. Walker, and S. Dana Horton. As the situation now and then, and the causes, are similar, I shall quote briefly from the proceedings of this Conference.

Mr. Groesbeck, as the spokesman of the American Commission, stated the purpose of congress, in calling the Conference in its 2nd session as follows:

"The remonetization of Silver is, therefore, in no sense an enterprise undertaken by the United States selfishly, with a view to private profit; nor is it a new undertaking. They have been in the use of the two metals from the time the government was organized. It is no new system which they propose to establish; it is the old system, that under which they have lived and prospered, to which they are returning. From 1792 to the day when, by a sort of inadvertence, in 1873, the Silver Standard was suppressed, not a merchant, not a banker, not a manufacturer, not an establishment, nor an in-

terest of any kind, could be cited as having raised any objection to the simultaneous use of the two metals. Bimetallism is, therefore, in the United States not only a tradition of the law but has entered deeply into the habits of the people.

"It can, therefore, be said that the United States from their foundation to the present day have always had the same silver money. The coin whose restoration was decided upon in 1878 is not a new coin; it is an ancient coin to which we are returning because it embodies an ancient, favorite policy.

"In 1873, in a law which did not very accurately carry out its purpose, silver was made to disappear through inadvertence rather than intentionally, by an omission to say anything about it. As a matter of fact, the silver standard was found to have been suppressed. The example of Germany had proved contagious; no newspaper had discussed the question; public opinion, by no means enlightened, was, so to speak, taken unawares, and great surprise was felt when, a short time after the law was passed, the change was fully perceived.

"In 1878 the legislator, better advised, desired to re-establish in its integrity the traditional money system of the United States; he put silver upon the footing of equality with gold, and in order the better to secure for the future the simultaneous use of the two metals, brought about the convocation of this Conference. The law which has been passed this year is the due expression of public opinion. In voting it Congress has shown itself, let it be well understood, the faithful interpreter of the sentiments and the wishes of the American people. Never has a law so important been passed by a majority so great as that which passed the law remonetizing silver.

"The use of both gold and silver as unlimited legal tender money may be safely adopted; first, by equalizing them at a relation to be fixed by international agreement; and, secondly, by granting to each metal, at the relation fixed, equal terms of coinage, making no discrimination between them." (Pages 21 and 22, same authority).

"Mr. Goschen, the spokesman for the British delegation, expressed the desire to know precisely what signification was to be attached to the word 'inadvertence' which Mr. Groesbeck made use of in saying that the demonetization of silver in the United States in 1873 had been a surprise to the public.

"Mr. Groesbeck replied that by 'inadvertence' he meant that the American people had never been asked whether they wished silver to remain a legal tender; that no newspaper had called attention to the change; nor had any chamber of commerce or board of trade considered or recommended it. It occurred while the government was in a state of suspension, and when public attention was not sufficiently directed to the subject."

"Later, when the measure produced results of which no notice had been given, and notably to take away from the

country the use of a money to which it had been accustomed from the first day of its existence, public opinion showed itself justly disturbed.

"General Walker entered into explanations which showed not only that the attention of the people of the country was not called to the fact of the change being effected, but that it was unknown to men specially occupied with financial and monetary subjects. He himself, though he had at the time been lecturing on Money, and occupied a chair of political economy, was not aware of what was being done, and he presumed the great majority of his fellow citizens were equally ignorant." (Pages 23 and 24, same authority).

Whether the demonetization of silver was brought about by corruption or not, it is clear from the statements of Mr. Groesbeck and General Walker that it was brought about by stealth and deception. It appears from Mr. Groesbeck's statement that it was accomplished in Germany in the same manner. These are the temperate, well considered, official statements of the official representatives of the United States, made in the course of an official negotiation, and not in a controversial or partisan manner. The same interest and the same greed that brought about the demonetization of silver brought about the enactment of the Federal Reserve law and the deflation program in the same stealthy and fraudulent manner.

At the fourth session of the Conference, in the course of the discussion, General Frances A. Walker, (author of "Money" which is even now recognized as a text book on the subject) said:

"Cutting, as in the first instance it does, to the very quick into the profits of the **entrepreneur**, or man of business, which profits constitute the sole motive to production under the modern organization of industry, and enhancing, as in its ultimate operation it must, the burden of all debts and fixed charges, public, private, or corporate—which debts and charges are, in effect, the mortgage which the representatives of past production hold upon the products of current industry—a diminution of the money supply is one of the gravest evils which can menace mankind.

"The mischiefs of a contracting circulation have twice, at least, in the course of events befallen Europe as the result of the exhaustion of the mines of the precious metals, or the interruption of mining industry by barbarian invasion or civil convulsion. It has remained for this generation and this decade to see these mischiefs brought upon Europe by the deliberate

acts of Government under advice of political economists. (This covers the present situation like a wet blanket).

"Suffocation, strangulation, are words hardly too strong to express the agony of the industrial body when embraced in the fatal coils of a contracting money supply!

"Against so great a wrong to civilization and to the hopes of mankind the representatives of the United States here present raise their earnest protest and warn'g. This is our real interest in the silver question. This it is which brings us here." (Page 78, same authority).

This is a good description of the present "agony of the industrial body," which is writhing against the "fatal coils of a contracting money and credit supply."

Bear in mind that this is a part, and, for the sake of brevity, a small part, of the official statement of official representatives of the United States made in the course of an official negotiation.

Sherman's Change of Heart.

Senator John Sherman, whose letter was referred to in the proceedings of the 1867 conference, repented his error and sought to atone for the frightful mistake that had been made. He was Secretary of the Treasury in 1878, and as such wrote Mr. W. S. Groesbeck on July 15, 1878, as follows:

"To that part of your letter of the 12th instant, in which you ask my view of the matters confided in the Monetary Commission, I have some delicacy in replying very fully.

"During the Monetary Conference in Paris, when silver in our country was excluded from circulation by being undervalued, I was strongly in favor of the single standard of gold, and wrote a letter, which you will find in the proceedings of that Conference, stating briefly my view. At that time the wisest among us did not anticipate the sudden fall of silver or the rise of gold that has occurred. This uncertainty of the relation between the two metals is one of the chief arguments in favor of a mono-metallic system, but other arguments, showing the dangerous effect upon industry by dropping one of the precious metals from the standard of value, outweigh in my mind all theoretical objections to the bi-metallic system. I am thoroughly convinced that if it were possible for the leading commercial nations to fix by agreement an arbitrary relation between silver and gold, even though the market value might vary somewhat from time to time, it would be a measure of the greatest good to all nations. My earnest desire is that you may succeed in doing this." (Page 139, same authority).

A quotation from Alexander Hamilton on this sub-

ject is warranted because of his pre-eminent authority. He was the founder of the first bank of the United States. He has left the imprint of his wonderful intellect upon both the banking and fiscal systems of our country. He was always a strong advocate of a central bank as well as a central government.

An extract from the report on the Mint by Alexander Hamilton, Secretary of the Treasury of the United States, 1792, follows:

"Upon the whole, it seems to be most advisable, as has been observed, not to attach the unit exclusively to either of the metals, because this cannot be done effectually without destroying the office and character of one of them as money, and reducing it to the situation of a mere merchandise. To annul the use of either of the metals as money is to abridge the quantity of circulating medium, and is liable to all the objections which arise from a comparison of the benefits of a full with the evils of a scanty circulation." (Page 106, same authority).

The following is a quotation from the report of the American Commission to Congress, made on Oct. 17, 1878:

"The early sessions of the Conference disclosed two facts: First, that political complications would combine with economic objections to prevent the accomplishment of the immediate object of the act under which your Commission was constituted, namely, the establishment, by international agreement, of a fixed ratio in the coinage between gold and silver; second, that the views of the delegates from the majority of the countries represented, and especially the more populous and territorially extensive countries, were favorable to the ultimate object of the act, namely, the restoration of silver to its rank as money of full power in Europe and America.

"In the latter respect the Congress of 1878 presented a strong contrast to its sole precursor, the Monetary Conference held in Paris in 1867. The Conference, animated by a controlling desire to secure a uniformity of money pieces among the nations there represented, and deeming that it saw in gold-mono-metallism the means of doing this, recommended that policy, with very little consideration of the sacrifices it would require from production and trade. By an almost unanimous vote, that Conference pronounced in favor of gold, silver to be retained as money of full power only during the period of transition to gold, which might be longer or shorter in the case of different states.

"Inasmuch as eleven years have been allowed for discussion and reflection since this memorable declaration was made;

inasmuch as the rejection of silver as money of full power has in part been carried out; and inasmuch as great loss has already been entailed upon production and trade as the initial cost of that movement, the scheme for the general demonetization of silver throughout the civilized states, if indeed it were sound and judicious in 1867, ought to stand more firmly still in 1878.

"Yet it was the unmistakable sentiment of this Conference, convoked by the United States, that the demonetization of silver had proceeded farther than was compatible with the interests of Europe and America; and while diplomatic conditions prevented the formal declaration of any opinion which would have been offensive to the minority, the Conference did not hesitate to declare that the monetary functions of silver ought to be maintained as well as those of gold. Monometallism, in the sense of the Conference of 1867, was advocated in that of 1878 by only three delegations, none of which represented populous states.

"In this connection, the position of England is worthy of special remark. That nation had set the example of demonetizing silver, and after the Conference of 1867 recommended the general adoption of gold-mono-metallism, the Chancellor of the Exchequer, in Parliament, congratulated the country that Europe was preparing to follow in the same course. The Conference of 1878 was attended on behalf of Great Britain by a delegation eminent for experience and economical authority, whose chairman, the head of the parliamentary committee of 1876 on the Depreciation of Silver, declared that universal gold mono-metallism was not only utopian, but would prove a false Utopia; that the consequence of the German demonetization had been greatly to derange trade and disturb international exchanges; and that were the movement for the rejection of silver as money of full power to proceed from state to state the results would not be less than disastrous."

"A disposition was manifested by some of the advocates of gold-mono-metallism to make it matter of disparagement that the advocacy of silver came so largely from States laboring under financial embarrassments and suffering the circulation of irredeemable paper money. The delegation of the United States, however, refused to admit this as a valid objection. **That states heavily burdened with debts, representing the cost of wars, of vast military establishments and extensive public improvements, should earnestly protest against a financial policy which, by diminishing the stock of gold and silver in which debts may be discharged, must greatly enhance the weight of those obligations, and make taxation more oppressive, certainly affords no justification for reproach.**

"We conceive that there can hardly be dissent from the proposition that it would be both political wrong and an economic injury of the gravest character to adopt a monetary policy

which should increase the pressure of debts by diminishing the amount of the precious metals in which they may be paid.

"We are glad to report that the allegation so erroneously made that the act of Feb. 28, 1878, was passed as a measure of partial repudiation, and with the object of paying the debts of the United States in money of inferior value, had made very little impression on the public mind of Europe, so far as could be judged from the tone of the Conference." (See Pages 204-5-7-8 and 9, same authority).

"The Crime of '73"

This was really a conference with the holders of our bonds in which we sought to arrange to pay them in cheaper money (our gold mines having failed) and higher priced products, and which they very naturally refused, although frankly admitting that the gold standard was too narrow a basis for the monies of all of the countries of the world. If it were then insufficient, how much more so is it now, in view of the enormous expansion in the commerce of all countries without a corresponding expansion of the supply of gold. We were then paying our bonded indebtedness and adverse trade balances with 6 cent cotton, and other products having the same relative value; why should they make it 12 cents? The British and American bond holders have again doubled the value of their bonds. If what they have already accomplished is not undone, it will mean the industrial slavery of the people of the world.

While the negotiations were progressing, our condition was rapidly changing for the better. New gold fields and new processes for working low grade ore profitably, were discovered. Our money supply and values and prosperity increased rapidly. The improvement was no doubt greatly aided by the realization on the part of the money interests that they had gone too far, and that they were likely to lose the victory they had won. The people became reconciled to the gold standard, the "silver craze," became a subject of jest, and all effort to restore silver was abandoned. This is the official story of the establishment of the gold standard, and of the debasement of silver, and of the "Crime of '73."

The Crime of '73 was indeed a great crime against the American farmer and laborer, and against productive industry, for it meant that the bonds that had been bought with inflated and cheap money had to be paid with deflated and dear money. It meant that for a long period of time we paid these bonds to our creditors with \$1 labor, 50 cent wheat and 6 cent cotton. It meant poverty and illiteracy for the laborer and the farmer, and particularly the southern farmer, whose cotton paid a large part of his indebtedness. It meant an adverse trade balance against America for many years, and a consequent financial, bondage, from which we have only recently recovered, as a result of the war.

CHAPTER TWENTY-FOUR

The Political Game of the Dollar Is to Go With the Winning Side

The following quotation is from a speech of Senator J. Thomas Heflin of Alabama (Governor Harding's home state), made in the U. S. Senate on Aug. 15, 1921, and published in the Congressional Record of Aug. 22, 1921, pages 5932 to 5938 inclusive:

"I want to read an editorial from the Washington Times of April 12, 1921. That was just after a new chief had gone into control at the White House, and the one who appointed him had retired to private life. Here is what was said right here at the Capital of the Nation. The headline reads—

"FEDERAL RESERVE HEAD TO REMAIN IS REPORT."

"That refers to Gov. Harding, and the article reads in part as follows:

"'Although Gov. Harding is a Wilson appointee he did everything consistent with his office to further the Republican cause at the last election. This attitude has dispelled prejudice arising out of the fact that he was inducted into public life under the Democratic auspices'."

"I wonder, Mr. President, if Gov. Harding, who could not do the thing last fall that might help the cotton farmer and the Democratic party, is now holding on to his job because the appointing power is pleased with the contribution he made to Republican success in the last election. There is nothing that Gov. Harding could have done for the party that now indorses his deflation policy and now keeps him in office that would have contributed more to Republican success than what he did do in his position as governor of the Federal Reserve Board.

"He could not have done more if he had been trying to defeat the Democratic party that had nurtured him into being in a public way. A great many people believe that if he had decided to support the Republican ticket he should have resigned, so that the position given him by the Democratic party could not and would not have been used without Democrats knowing just what he was doing with it. If the Democrats of Tennessee and Oklahoma who stayed away from the polls had known that Gov. Harding was supporting the Republican ticket, they would have understood just why the deflation policy was being pressed so vigorously and so mercilessly just before the election in 1920. I think that any man appointed to an office like that of governor of the Federal Re-

serve Board should be required to announce his change of political faith and resign, and not be permitted to continue in office in disguise and maybe use his powers to retain his position."

I have discussed in the preceding pages only the official record of Gov. Harding and the Federal Reserve Board and Council. I have not charged them, or any of them, with a single act, or imputed to them a single motive, that they themselves have not officially admitted. The discussion has been confined wholly to their admitted record and to their self assigned and self serving reasons. They have not, of course, admitted that they were influenced by political considerations but, strange to say, with a press staff ever ready with denials and excuses, they have not denied the grave charge of Senator Heflin, which involves their personal and official integrity.

Gov. Harding, as a citizen, had the right to change his politics. The propriety of his doing so while still accepting benefits from the party he renounced is a different matter. He did not have the right to use the power of his office to further the political interest of any party. What did Governor Harding do to "further the Republican cause that was consistent with his office"? What could he do and why should he be active in the political fight? This press statement came from him, for no one knew about his change of heart and the work he did except himself, at least no one was interested to brag about it except himself. Why did he give out this press statement at or about the time of the inauguration of President Harding? If political considerations have had anything to do with this depression, it is indeed a grave situation and one that President Harding can not afford to ignore.

It is to be hoped that the power of the Federal Reserve System has not been prostituted to this extent, and that the country has not had to pay such a frightful price for the political conversion of Gov. Harding. If Gov. Harding has in fact turned Republican, then this depression can not be charged wholly to the Democratic administration; it is, in part at least, of Republican origin.

Further supporting this view is the fact that Senator

McCormick of Illinois, who introduced the senate resolution on May 18th, and a majority of the Advisory Council (the real power) are old line Republicans, and in close communion with the Invisible Empire; indeed, the controlling spirits of the Advisory Council are princes in the Empire of Dollardom.

President Harding has the power to peremptorily remove any member of the Federal Reserve Board for cause; his power of removal is as absolute as his power to remove a postmaster or marshal. The official record of the Board is sufficient cause for their dismissal. By permitting the members of the Board to continue in office President Harding adopts and approves their record.

I state advisedly that President Harding knew at the time of his inauguration that this debacle had been brought upon the country deliberately by the Federal Reserve Board, and that he was petitioned by responsible citizens to remove the Board for this "cause." If President Harding had then promptly removed them, and a change of policy had been promptly announced, this depression would have been lifted at once. People have lost confidence in the system and the integrity of its management; this would have restored it. Even now, such a change would help materially, but the psychological time has passed.

Who is it that approves the administration of the Federal Reserve Board, where does he live, and what does he represent? Who is it that brought about the selection of these members of the Federal Reserve Board by the Wilson Administration? Who is it that has the power to keep these men in office in the face of their condemnation by the great mass of the American people? It is likely that the same power that was responsible for their appointment in the first place, is now responsible for their continuation in office. The Democratic party answered for them in the election of 1920; the Republican party must do so in 1922.

A Political Bureau.

Whether this depression is due to Democratic or Republican policies, or to any political considerations,

the fact is indisputable that the Board, as it is now constituted, is a political bureau, which means that the management of our banking and currency system is involved in every presidential election, and which means, further, that the usual business disturbance attending presidential elections will be intensified. The size of the Board, the method of the appointment and removal of its members, indicate that the real intention of the law was to create a political bureau for the government of our banking and currency system and prosperity.

The money kings do not want an impartial, non-political Board with which they will have no especial pull or influence. A properly managed financial system would seriously impair their power and they do not want anything of that sort. The description by President Wilson of the dominant political power of Wall Street, quoted in the first chapter, is not an exaggeration; it is, as stated by President Wilson, "the mere literal truth."

Dollardom is willing to take its chances on a political fight, for no matter what party wins, it is usually found to be in control, and to be doing business in the same old way, and at the same old stand. With the exception of the administration of President Roosevelt, it has been the dominant power with every administration, Democratic and Republican, since the civil war. This may account for the fact that the Federal Government has not undertaken to fix values of money and of foreign exchange as required by the constitution.

It takes a lot of money these days to elect a President, and Dollardom furnishes it; it, therefore, claims and receives special consideration where its interests are concerned. President Wilson's first campaign for the presidency was made on the basis of one dollar contributions, with a limitation of \$100 to one person or firm, and the people responded generously. But after the election, when a statement of the election contributions and expenses was filed in accordance with the law, it was found that New York had contributed as usual, with Bernard Baruch heading the list with a \$50,000 donation, as I recall the amount. Prior to that time

Bernard Baruch had not been heard of beyond the narrow confines of Wall Street.

A scandal was stirred up by the revelations that the backers of General Wood had spent approximately \$2,000,000 in promoting his candidacy for the Republican nomination; but the expenditure of \$5,000,000 in promoting the election of President Harding was accepted as a matter of course. Roman History is being repeated in America. The founders of the great Roman Republic were sturdy farmers, as were the founders of the American Republic. In the course of time agriculture became unprofitable, the farmers impoverished, the cities grew and prospered at the expense of the country, and the usurers absorbed the lands and the wealth of the country.

A Lesson from Rome.

The Roman money system and the Roman usurer destroyed the character, morale and patriotism of the people, and thereby brought about the destruction of the Roman Empire.

The same forces are at work here in America and they are working with far more craftiness and far greater energy than in Rome. It took more than one hundred years to sap the solid foundations of that great Republic, but at the speed we are travelling, the work of destruction will be finished in America in less than twenty years. Adam Smith in his "Wealth of Nations," page 473, describes the conditions preceding the fall of the Roman Empire:

"In Rome, as in all the other ancient republics, the poor people were constantly in debt to the rich and the great, who, in order to secure their votes at the annual elections, used to lend them money at exorbitant interest, which, being never paid, soon accumulated into a sum too great either for the debtor to pay, or for anybody else to pay for him. The debtor, for fear of a very severe execution, was obliged, without any further gratuity, to vote for the candidate whom the creditor recommended. In spite of all the laws against bribery and corruption, the bounty of the candidates, together with the occasional distributions of corn, which were

ordered by the senate, were the principal funds from which, during the latter times of the Roman republic, the poorer citizens derived their subsistence. To deliver themselves from this subjection to their creditors, the poorer citizens were continually calling out either for an entire abolition of debts, or for what they called New Tables; that is, for a law which should entitle them to a complete acquittance upon paying only a certain proportion of their accumulated debts.

"The law which reduced the coin of all denominations to a sixth part of its former value, as it enabled them to pay their debts with a sixth part of what they really owed, was equivalent to the most advantageous new tables. In order to satisfy the people, the rich and the great were, upon several different occasions, obliged to consent to laws both for abolishing debts and for introducing new tables; and they probably were induced to consent to this law, partly for the same reason, and partly that, by liberating the public revenue, they might restore vigor to that government of which they themselves had the principal direction."

We have not yet fallen so low, but it is only a question of a few years at the pace we are now travelling. No such vast sums of money were spent in the Roman elections, even in her decadent days, and no such sums of money have ever been spent in the elections of any other country as are now spent in our presidential elections. It is doubtful if a candidate can be elected President of the United States without the expenditure of a large sum of money, which, if true, means that the power of money will continue the predominant power in government.

The Progressive Party Platform.

"Political parties exist to secure responsible government and to execute the will of the people. From these great tasks both the old parties have turned aside. Instead of instruments to promote the general welfare, they have become the tools of corrupt interests which use them impartially to serve their selfish purposes. Behind the ostensible government sits enthroned an invisible government, owing no allegiance and acknowledging no responsibility to the people. To destroy this invisible government, to dissolve the unholy alliance between

corrupt business and corrupt politics, is the first task of the statesmanship of the day.

"The deliberate betrayal of its trust by the Republican party, the fatal incapacity of the Democratic party to deal with the new issues of the new time, have compelled the people to forge a new instrument of government through which to give effect to their will in laws and institutions.

"Unhampered by tradition, uncorrupted by power, undismayed by the magnitude of the task, the new party offers itself as the instrument of the people to sweep away old abuses, to build a new and nobler commonwealth."

This is the language of the platform of the Progressive party adopted Aug. 7, 1912, upon which Theodore Roosevelt and Jno. M. Parker (now Democratic governor of Louisiana) ran for the Presidency and Vice Presidency respectively. It was at least approved, if not written, by these two courageous, independent, great men. Upon it they smashed the Republican party, and they would have been overwhelmingly elected if the truth had then been known about Woodrow Wilson.

Ex-President Roosevelt was at the time of his death the most distinguished Republican and the greatest citizen of the United States. If he had lived, he would have undoubtedly been the republican candidate for the presidency, and he would therefore now be President. He had an ill concealed contempt for the cant and hypocrisy and incompetency of Wilsonism. His death was a national misfortune. In a recent speech President Harding classed him with Washington and Lincoln as the three greatest men in the history of our country.

Is this arraignment of the Republican and Democratic parties true? Is it true that both of the parties have become the "tools of corrupt interests which use them impartially to serve their selfish purposes"? Is it true that a selfish, sordid, corrupt "invisible government sits enthroned behind the ostensible government," directing its operations in its own selfish interests? Is it true that the Republican party has "deliberately betrayed the trust" that the people confided to it, and that the Democratic party is "fatally incapable to deal with the new issues of the new times"? If these things were all true in 1912, are they now true? What evi-

dence have we of reformation or improvement since that date?

There is remarkable similarity in this language of the Progressive party and the speeches in that campaign of ex-President Wilson. He too said that there was an "invisible empire of money" that controlled the Republican party and ruled the country, which he promised to overthrow. The American people believed the truth of these charges as applied to the Republican party then in power, and they believed his promises, and they invested him with the power to redeem them. They repudiated the Republican party in every state except two, by an overwhelming vote, and they gave the Democratic party a big majority in both branches of congress.

Eight years of Democratic administration have intervened since then, and the Democratic party has also been repudiated by a tremendous majority. Have not these years of Democratic administration demonstrated its "fatal incapacity to deal with the new issues of the new time"? Has not this record demonstrated beyond a reasonable doubt that the Democratic party under the leadership of ex-President Wilson also deliberately "betrayed the trust" of the people, and that it has also become the "tool of corrupt interests which have used it to accomplish their selfish purposes?"

What of the Future?

And what of the future?

The two wings of the Republican party have re-united, but they cannot remain so, for their ideals, their aspirations, their purposes and their interests are totally different. President Harding has undertaken the impossible task of harmonizing them, of riding both horses, which he cannot do, for they are travelling in opposite directions. He must ultimately choose between them.

I hope for his sake, as well as that of the American people, that he will finally land on the side of the Progressives. The most hopeful sign of the times is the "agricultural bloc" in the House and Senate. It will no doubt expand into a political party that will sweep the country if neither of the old parties adopts its

program. There must either be a new party or a thorough regeneration of one or the other of the old ones.

President Harding made no extravagant promises prior to his election; he was, in fact, classed as a reactionary. If he should finally line up on the reactionary side, no one can justly accuse him of treachery and deception; he will only be siding with one wing of his party, very considerable in number, and very powerful otherwise. He has manifested, more since his election than before, the deepest concern for the interest of the American farmer and the American business man.

President Wilson had no such schism in his party; his election was due mainly to the support of the southern farmer, whom he deserted. President Wilson's sympathies and interest, as publicly expressed, were always favorable to the demands of organized labor, and against the high cost of living. It was the "basic hour day" and high wages for organized labor, and long hours of labor and low prices for the farmer. I recall no public expression favoring a square deal for the business man and a living price for the products of the farm.

The Democratic party as it is now constituted, and as it is represented by its present national platform, no longer represents the political principles, the aspirations or the interest of the people of the south. We have sacrificed them all to retain the support of Tammany, the most corrupt political organization on earth, and to attract the vote of organized labor, which is dominated by radicals and socialists.

The party was founded by Thomas Jefferson upon the principle of a strict interpretation of the national constitution, of a national government with limited powers, reserving unto the states and people all power not granted to the national government in express terms by the constitution. For the first time in its history the last National Democratic platform failed to reaffirm this principle. Its shibboleth now is to "reduce the cost of living," which has been the keynote of the last two national campaigns. This is diametrically opposed to the interest and prosperity of the people of the South, and of the farmer and of the laborer. It is an appeal to

man's cupidity, and a bid for the vote of the non-producing consumer at the expense of the producing consumer.

The principal elements of the cost of living are the items of raw material, labor, interest, transportation and distribution. The packing plants, flour mills, and other manufacturers, the whoiesalers and the retailers, control the distribution, and they are so organized as to get their toll whether prices are high or low. The railroads control the transportation, and their rates are not materially affected by prices. The banking system controls the rate of interest, which is wholly independent of prices. The labor organizations have demonstrated their power to maintain high wages, for a time at least, in spite of wide spread unemployment.

The farmer and the laborer suffer directly and most as a result of a reduction in the cost of living; the farmer first and most because he is unorganized. The banks, railroads and distributors suffer indirectly on account of the depression caused by unemployment and unprofitable agriculture, but they usually manager to make a profit with prices high or low, and both going and coming. A demand for the reduction in the cost of living is a demand that the farmer sell his products cheaper and that the laborer shall work cheaper. It means that and but little else.

This crisis has clearly demonstrated that a reduction in the cost of living is directly against the interest of the farmer, who constitutes the backbone of the Democratic party, and of the laborer with whom the party is always flirting; it has demonstrated also the vital necessity under existing conditions of organization on the part of both laborer and farmer, and of co-operation between them.

There is nothing in common between us and Tammany Hall, controlled as it is by the Jewish Kehillah and the corrupt financial interests of New York City. The political party that carries the State of New York may be safely classed as favorable to the financial district of New York City; it should, therefore, not carry a single southern or western state. The interests of the west

and south are identical, and they have suffered alike from the rule of Dollardom. The party that seeks the vote of New York State, and is willing to give the necessary assurances to get it should not have the support of either the South or West.

If our party can not be reformed within—and there are many practical obstacles to be overcome—we must join hands with the Progressives of the Republican party, for the "money trust" has grown enormously in power as a result of the war, and it is emboldened by its successes. Prosecution will not avail; it has proven to be dilatory, expensive, and futile. If we can not bring our party back to its ancient fundamental principles, we should join the Progressives in organizing a new one.

CHAPTER TWENTY-FIVE

An Inheritance Tax Could Break the Backbone of the Money Trust

We can destroy the invisible government that has so long and selfishly and corruptly ruled us, but its destruction is dependent upon an untrammelled government that is truly representative of the interest of the people. The remedy appears to be an inheritance tax that will put a reasonable limitation upon the amount to be inherited, and that will thereby dissipate the big fortunes.

Congress is now anxiously seeking to provide the necessary revenue for government expenses. Everybody is trying to put the burden of taxation on the other fellow; it is now largely on the income of wealth, and wealth seeks to transfer it to the consumer.

No one seems to have seriously considered a radical increase of the inheritance tax. A part, at least, of every character of tax, except the inheritance tax, will finally be paid by the producer or consumer, or both; the sales tax is a direct tax upon consumption. Every tax except the inheritance tax tends to increase the cost of living. The expenses of government can and should be paid by an inheritance tax. The right of inheritance is a creation of the law, and it should be abridged by law to the extent that it becomes inconsistent with the public welfare. When our laws of descent and distribution were first written we had no money trust, no super-invisible government, no idle rich, and no \$100,000,000 estates.

The Inheritance Tax.

The inheritance tax should be so graduated as that the maximum inheritance would not exceed the reasonable needs of the beneficiary. An inheritance of \$1,000,000, taking into consideration all ante-mortem gifts, ought to be enough for the worthy beneficiary, and it is too much for the spendthrift. An inheritance of \$100,000,000 is a public menace. It gives too much power to those who have no conception of their responsibilities.

Children who have been reared in the lap of luxury can have little appreciation of the problems of those who toil. It will be better for them, as well as for society, if they themselves must earn at least a part of their "bread by the sweat of the brow." These mammoth estates are too large and too well organized to be dissipated by extravagance and mismanagement. The hired manager represents the ideals of the owner, (no other kind are eligible) and being smarter, he is more dangerous.

"The almighty dollar bequeathed to children, is an 'almighty curse,'" wrote Andrew Carnegie in 'The Gospel of Wealth.' 'No man has a right to handicap his son with such a burden as great wealth.'

William K. Vanderbilt, who died recently, said in 1905:

"Inherited wealth is a big handicap to happiness. It is as certain death to ambition as cocaine is to morality."

Mr. H. H. Klein, in his book "Dynastic America and Those Who Own It" estimates and classifies the wealth of the richest families of America as follows: One owning \$2,500,000,000; four owning \$500,000,000 each; one \$400,000,000; three \$300,000,000 each; six \$200,000,000 each; eleven \$150,000,000 each; fourteen \$100,000,000 each; twenty-two \$75,000,000 each; eighty \$50,000,000 each; and two hundred and fifty-four \$20,000,000 and upward, each; making a grand total of \$20,789,000,000 owned by 396 men. (See pages 155 to 157). He shows that during the present generation 12 men died having estates of more than \$100,000,000 each, and 53 having estates of \$40,000,000 and upwards, each. (See page 18). More than three-fourths of this vast wealth is in New York City.

He shows in great detail, on pages 70 to 138 inclusive, the investments of this vast, aggregation of wealth. It controls the big banks and trust companies, insurance companies, the coal, oil, and mining companies, the steel, packing and other industrial companies, and the railroads and other public utilities. It controls the liquid wealth of America; it controls America economically and politically; it can make and unmake prosperity; it controls the destiny and happiness of all who

live in America. A large part of this wealth is now in the hands of heirs, even of the 2nd and 4th generation, and all of it will soon be; practically all of the owners of estates that have not been inherited are past middle age.

When Will the Panic End?

We now anxiously ask ourselves and each other when this liquidation and depression will end, when will money be available for our ordinary requirements, when will the upward swing begin, and how fast will it travel. That depends largely upon the will of the half dozen bell weathers who control Dollardom. They say that the upward movement will start when the railroads start buying, but when will that occur?

It will be when Morgan & Co., Kuhn, Loeb & Co., Kidder, Peabody & Co., Speyer & Co., and other private bankers who finance and control them, have accomplished the purposes they have in view, and not until then. They can no longer claim that the public is unwilling to allow rates that will enable the railroads to repay the moneys they borrow, and that they therefore can not be safely financed. It may be that Dollardom is not yet satisfied with the liquidation of labor; or it may be that they are not through bringing pressure on the government, or there may be other reasons. Whatever the reasons may be, the country must wait until they are satisfied and ready to move.

The predominating motives that govern men in the accumulation of wealth, are: 1st, to leave an estate, and thereby provide for those dependent on them; 2nd, the love of power, luxury, and display that wealth provides; and 3rd, the pride of achievement. These are not unworthy motives, any of them. They furnish the incentive to effort, private property is founded on them, and the commerce and civilization of the world is due largely to them. Selfishness and greed and rascality are also due to them; this depression and most of our other social, political and economic ills can be traced to them. The "love of money" is now, as always, the root of much evil.

The "love of money" should not be destroyed, but

it should be curbed. Men are not so likely to cheat, defraud, and oppress their fellow men for the purpose of building up big fortunes that will go to the government when they die. In the course of a generation the government will through the inheritance tax acquire control of all of the railroads, mines, big industrial and public service corporations, unless its national policy is to convert inherited property into money, and during that time the tax will have paid off its bonded indebtedness.

The tendency of such a law, it must be admitted, is in the direction of socialism, but so is the general political and industrial tendency. We had as well recognize the truth, however much we may deprecate it. These huge fortunes and the abuse of their power will create infinitely more socialism and radicalism than will their destruction through an inheritance tax. The right of the enjoyment of private property has always been subject to the higher right of society, viz: that it shall not be used to the public detriment.

In October, 1906, the late President Theodore Roosevelt said at the laying of a cornerstone in Washington:

"As a matter of personal conviction, without pretending to discuss the details or formulate a system, I feel that we shall ultimately have to consider the adoption of some such scheme as that of a progressive tax on the fortunes beyond a certain amount either given in life or devised or bequeathed beyond death, to the individual—a tax so framed as to put it out of the power of the owner of one of those enormous fortunes to hand over more than a certain amount to an individual, the tax of course to be imposed by the national, and not the state government." (Dynastic America, page 158).

CHAPTER TWENTY-SIX

The Final Battle Will Be Fought in the Halls of Congress

We, ourselves, can not wholly escape responsibility for the "Crime of '20," treacherous, cruel, and destructive as it has been. We have known for years of the invisible power that rules both political parties, that finances presidential elections, and that shapes legislation and governmental policies, and we have tolerated it. We now have, have always had, and will always have, as good a government as we deserve, and no better. If it is not representative of the interest of the people, it is largely the fault of the people. The truth is, gentle reader, you and I and others of our kind have been derelict in our duty as sovereign citizens; we have been governed by sectional and partisan prejudice; we often fail to vote; and we permit selfish interests to control our political parties and their policies. The "money trust" and other special interests are powerful politically because of our indifference.

We complain of the politicians, but we ourselves are not willing to seek or accept office. Who and why are politicians? They are the men we have elected to office; and they have been elected on issues that are supposed to represent our wishes and interest; if they do not correctly interpret them, the fault is also ours.

There will be some compensation for the "Crime of '20" if it brings home to us the meaning of the usurpation of power upon the part of the national government and its bureaus; if it causes us to realize the tremendous influence of government over our fortunes, welfare and the happiness of our families; if it but arouses us to fully discharge the duties and responsibilities of citizenship. There may be other and better remedies than any of those suggested in the preceding pages. The true, the underlying, remedy is an enlightened and an aroused citizenship.

Many of the best of us have had our fortunes, the

product of the labor of a life time, taken from us, "as by a thief in the night time"; wiped off as a "slate with a sponge." Some of us are too old to retrieve them. Many true and good men feel they have been dealt with harshly and unjustly by the government they were striving to support, and they are deeply resentful. Men "see red" who four ears ago were willing to sacrifice their all for country, including life itself.

Growth of the Invisible Empire.

The "Invisible Empire" of Money has continued to rule during the nine years since 1912, when it was denounced by both the Democratic and Progressive parties in similar language, and it has grown enormously in wealth and power since then. In addition to controlling our banking and railroad systems and industrial enterprises, it is now said to control the press service and many of the larger newspapers and magazines which provide the means of disseminating information and creating sentiment. If true, this adds materially to its power, and to the difficulties of the situation; for ours is largely a government of public sentiment.

The Empire of Dollardom has never yet been brought before the bar of public opinion; the public only know in a vague way that there is such a power that rules us, which, for the want of a better name, is called "Wall Street;" but they do not know who controls it, nor what its extent and ramifications are, nor how it operates. They only half believe many of the things that are said about it. It is all shrouded in mystery, and so, with a controlled press, it will continue to be. It seeks darkness and secrecy always; and resists, with all of its might, light and truth; it can only live in darkness and by secrecy and by falsehood. The mighty power of truth will destroy it, and therefore it fears truth.

Men who know most about it, fear most its power and vengeance; for they know it fights with "poison gas." It is the one weapon in the use of which its votaries are past masters. The man who disputes its right to rule may expect a fight, and he may expect also to get hurt. Our unseen masters are conscious of their advantage

and of their great power; and they are bold, unscrupulous, relentless and unforgiving.

Unless this Empire of the Dollar is overthrown by the ballot and by constitutional methods, there will ultimately be a reaction of radicalism and socialism that will sweep away many of our cherished institutions, and many that are useful; for injustice, oppression and poverty breed resentment, hate and desperation. With all of its imperfections, we have the best government that has ever been devised, and it still needs our devotion and sacrifice.

It is time, high time, that we think and talk straight, and that we place country above self and above partizanship. This is an individual matter with each of us, and there is work for us all to do. It must be done in our homes, our churches, our precincts, and in our public gatherings, in season and out of season. We must create a demand for the reforms that we desire, and then elect men to office who will earnestly endeavor to enact these reforms into law.

The final battle must be fought in the Halls of Congress. If any of the reforms suggested in the preceding pages are enacted into law, it will be by the action of congress. It is of the utmost importance, therefore, that we create a sentiment for these laws, and that we elect men to congress to represent us and our views, not in a perfunctory way but with the earnestness and zeal and conviction of the crusader;—one such representative will be worth a dozen indifferent ones.

Too Much Lawyer.

Congress has gotten out of touch with the needs of the producer because it is composed principally of non-producers, who do not properly estimate and understand those needs. There are not now enough farmers in either branch of congress to make up the committee of agriculture of such branch; not enough manufacturers to make up the manufacturers' committee; not enough laborers to make up the labor committee; and not enough men engaged in the various lines of commerce to make up the commerce committee. It is doubt-

ful if there are enough members of congress engaged in any one of these lines of endeavor to constitute a quorum of the committee to which is referred all legislation affecting such industry.

There are enough lawyers, however, in both branches of congress to constitute a quorum of both branches, and then some; perhaps 80 per cent of the total membership are lawyers, and one-half of the remaining 20 per cent are non-producers. Both of the Texas representatives in the Senate are lawyers; and, as far as I know them, all the Texas representatives in the lower house are also lawyers. Most of the Presidents and their Cabinet Members since the civil war have been lawyers. This is also true of the Governors and members of the legislatures in the various states. Our government is as completely controlled by lawyers as our banking system is controlled by bankers. Many of our ex-office holding lawyers also collect around the seat of Dives in order to gather up the crumbs that fall from Dives' table. This migration of our ex-distinguished servants to New York and Washington is growing into a national scandal.

Without meaning to reflect in the least upon the great number of able and patriotic lawyers who have served us in congress and in other public capacities, intelligently and conscientiously and devotedly, I express the conviction that if congress had been more representative of the people and of their occupations and interest, we would now have "fewer laws and better laws" and a better government. The lawyer has probably made a better job of running the government than any other class could have done, but it is not in the public interest, particularly in the present condition of affairs, that any class, no matter how wise and good, should rule as completely as the lawyer now rules. The present unhappy condition of the country is a most serious indictment against our lawyer congress.

We are truly a government of the lawyer, by the lawyer, and very largely for the lawyer. This is the reign of the lawyer. As a legislator he makes the laws; as a judge he interprets them, and makes more; and as an executive he enforces them. We have an infinite

volume of law which is daily being added to, refined, limited and reversed. We are all conclusively presumed to know the law and we can not plead its ignorance. None of us in fact know it, not even the lawyers; no one can tell what it is, and we can not find it.

Our lawyer government has degenerated largely for the lack of an infusion of new blood; it has become hide-bound by precedent (precedent is the lawyer's fetish, his whole system of jurisprudence is built upon it); it has developed political issues that are of minor consequence to the people, and has ignored those that are of real, vital concern. The minority party is always a fault-finding party, it always opposes the majority and magnifies its mistakes, and it always finds enough of them during the course of an administration to go before the country on. Thus our political issues are made, and thus politicians and politics are growing more and more into disrepute.

President Harding's speech to the Unemployment conference indicates that he is a deflationist. The majority of the members of congress are probably at this time deflationists. The interest of those of them whose property consists of their salary and money and mortgages is on that side of the fence, and as a rule they may be counted as deflationists. While they do not consciously permit their personal interests to influence them officially, it is quite easy for men to convince themselves that the thing that is in their personal interest is for the public good. Those of them (and we have several from Texas) who have had experience as farmers and business men, are as a rule inflationists.

The disclosures contained in this volume will no doubt be a revelation to many members of congress; and yet the record has been made in the City of Washington under their very eyes; it is contained in the archives at Washington, and it is as accessible to them as to me. In truth the official reports from which I have quoted have been made to them, and they must therefore have known, in a vague sort of way at least, what has been going on. Probably they have not had a clear understanding of it; they did not fully realize

its certain consequence; and many of them perhaps do not understand the banking and currency question.

The Remedy at the Polls.

The beginning of the trouble dates back to the election of these congressional representatives. The fault is not with the lawyer that we elected, but with ourselves; they know in a far-off distant way about our problems, but not by living experience as we know them; they make issues for us because we do not make them for ourselves; they hold these offices because we do not want them.

There will not be an improvement in the administration of the government so long as we affect contempt for politics and politicians; so long as we spend our time criticizing without seeking to better; so long as we are unwilling to make whatever sacrifices good citizenship may demand of us. Men must be willing to consecrate themselves to public duty; they must be willing to work whenever and wherever they can be of greatest service; they must be willing to seek office, not for the salary or the vain glory of the honor, but because of the service they may render.

All of the signs point to the fact that the upward swing of prosperity will be under full way before the congressional elections of 1922. They have held down the prosperity due us longer than I thought it possible, and certainly as long as it is safe. We must not be deceived or lulled into a false feeling of security by that fact. We must remember that the causes that brought about this crisis are still latent in our financial system, and that they will be again brought into play at the beck and call of the "Money Trust." Our property and our prosperity and happiness must rest upon a surer and safer foundation.

THE END

MONETARY STOCKS OF THE PRINCIPAL COUNTIES OF THE WORLD

June 30, 1920.

| Country | Monetary Standard | Monetary Unit | | Stock Silver | Paper Circulation | Population | Per Capita | | |
|---------------|-------------------|---------------|-------------|--------------|-------------------|------------|------------|--------|---------|
| | | United States | Equivalent | | | | Gold | Silver | Paper |
| United States | Gold | \$1.00 | \$1.00 | Thousands | Thousands | Thousands | | | |
| | Gold | \$2,708,862 | \$2,708,862 | \$543,510 | \$4,377,057 | 108,291 | \$25.01 | \$5.42 | \$40.42 |
| Canada | Dollar | \$1.00 | \$1.00 | | 354,364 | 8,361 | | | 42.38 |
| Argentina | Peso | .9648 | .99119 | | 517,957 | 8,284 | | | 62.50 |
| Belgium | Franc | .193 | .51417 | 5,232 | 923,505 | 7,658 | 36.11 | | 98.61 |
| Denmark | Krone | .268 | 1.87,380 | 2,894 | 428,552 | 2,941 | | | 120.59 |
| France | Franc | .193 | 694,839 | 51,743 | 7,193,986 | 39,700 | 17.50 | | 127.98 |
| Germany | Mark | .2382 | 259,519 | 2,324 | 11,785,898 | 67,812 | 3.82 | | 210.73 |
| Great Britain | Pound | 4.8665 | 777,872 | | 2,436,963 | 46,089 | 16.88 | | 200.01 |
| Italy | Lira | .193 | 171,976 | 63,296 | 3,580,460 | 36,717 | 4.66 | 1.72 | 177.65 |
| Normway | Krone | .268 | 39,590 | | 121,754 | 2,632 | 15.04 | | 103.89 |
| Spain | Peseta | .193 | 466,800 | 121,588 | 746,316 | 20,843 | 22.39 | 5.83 | 61.26 |
| Sweden | Krona | .268 | 75,350 | 12,558 | 200,347 | 5,801 | 12.99 | 2.16 | 49.08 |
| Switzerland | Franc | .193 | 89,451 | 17,075 | 230,833 | 3,937 | 22.21 | 4.34 | 49.68 |
| Japan | Yen | 4.985 | 479,933 | 81,802 | 934,195 | 78,708 | 6.71 | 1.04 | 85.18 |

Total of Exchange Rates

Following is a table of Exchange for the month of July 1921, as shown in "Economic Conditions" published by the National City Bank of New York City.

Gold Reserves of the Principal Countries before the war, and at the latest available date as shown in the June, 1921, issue of Federal Reserve Bulletin.

| Country | Rate in Cents July 27 | Rate in Cents June 27 | Change from Par | Per Cent of Depreciation | In thousands of dollars | | | |
|---------------|-----------------------|-----------------------|-----------------|--------------------------|-------------------------|-----------|-------|-------|
| | | | | | 1913 | 1921 | 1913 | 1921 |
| United States | .8900 | .8825 | .1100 | 11 | 691,514 | 2,529,571 | 21,74 | 37,00 |
| Canada | .6575 | .6850 | .3073 | 31 1/4 | 115,375 | 83,391 | 3,63 | 1,22 |
| Argentina | .0751 | .0805 | .1179 | 61 | 224,989 | 450,057 | 7,07 | 6,59 |
| Belgium | .1510 | .1705 | .1170 | 44 | 59,131 | 51,447 | 1,86 | 7,5 |
| Denmark | .0772 | .0807 | .1158 | 60 | 19,666 | 60,989 | .61 | .89 |
| France | .0126 | .0135 | .2258 | 95 1/4 | 678,856 | 685,309 | 21,34 | 10,07 |
| Germany | 3.5750 | 3.76 | 1.2915 | 26 1/4 | 278,887 | 260,019 | 8,76 | 3,80 |
| Great Britain | .0408 | .0595 | .1522 | 78 1/4 | 170,245 | 733,350 | 5,35 | 11,16 |
| Italy | .1280 | .1450 | .1400 | 52 | 288,103 | 236,526 | 9,06 | 3,46 |
| Norway | .1272 | .1320 | .0658 | 34 | 12,846 | 39,474 | .40 | .57 |
| Spain | .2030 | .2245 | .0650 | 24 | 92,490 | 479,198 | 2,91 | 7,91 |
| Sweden | .1640 | .1700 | .0290 | 15 | 27,372 | 75,533 | .86 | 1,10 |
| Switzerland | .4850 | .4800 | .0135 | 2 % | 32,801 | 104,895 | 1,03 | 1,53 |
| Japan | | | | | 64,963 | 568,819 | 2,04 | 8,17 |